



## **ICICI Bank UK PLC**

**Basel II - Pillar 3 disclosures for the year  
ended 31 March 2013**

## **1. Overview**

### **Background**

ICICI Bank UK PLC (“the Bank”) is a UK bank authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) and a wholly owned subsidiary of ICICI Bank Limited. ICICI Bank UK PLC has adopted from 1 January 2008 the guidelines issued under the Basel II regime. The Capital Requirements Directive (Basel II) sets out new disclosure requirements for banks operating under the Framework. This document details the Pillar 3 disclosure requirements and is in addition to the consolidated Basel II – Pillar 3 Disclosures made by ICICI Bank Limited (“the Parent Bank”).

### **Basis of disclosures**

The disclosures have been prepared for ICICI Bank UK PLC.

### **Scope of application of Directive requirements**

The Pillar 3 disclosures have been prepared for ICICI Bank UK PLC in accordance with the rules laid out in the PRA handbook BIPRU Chapter 11. These disclosures should be read in conjunction with those made by the Parent Bank as part of their Basel II – Pillar 3 Disclosures (Consolidated).

### **Frequency**

This report will be made on an annual basis. The disclosures will be as at the Accounting Reference Date (ARD), i.e. as at 31 March, and will be published along with the publication of the Annual Report & Accounts.

### **Media and Location**

The report will be published on the ICICI Bank UK PLC corporate website as part of the Annual Report ([http://www.icicibank.co.uk/personal/basel\\_disclosures.html](http://www.icicibank.co.uk/personal/basel_disclosures.html)). The Parent Bank’s consolidated disclosures for FY2013 are available at <http://www.icicibank.com/aboutus/invest-disclosure.html>.

### **Verification**

The Pillar 3 disclosures have been prepared purely for explaining the basis on which the Bank has prepared and disclosed certain capital requirements and information about the management of certain risks and for no other purpose. They do not constitute any form of financial statement and must not be relied upon in making any judgement on the Bank.

## 2. Capital adequacy

The Bank determines its Pillar 1 regulatory capital requirement based on the following approaches:

- Credit risk - standardized approach
- Operational risk – basic indicator approach
- Market risk - standardized approach adopting the following methodologies:
  - Interest rate risk – Maturity Ladder approach
  - Foreign exchange risk – Standardized approach
  - Options risk – Standardized approach

The Bank estimates the capital requirements in line with the regulatory guidelines issued by PRA. Capital is provided for the purposes of unforeseen and unexpected events based on the risk assessment for each of the underlying asset classes in the Bank's portfolio. Further, in line with industry practice, the Bank acknowledges that capital is not the only mitigating factor for all unforeseen events and contingencies therefore appropriate risk management and governance practices are in place to actively monitor the risks the Bank is exposed to in the course of executing its business. Further, the Bank in line with the regulatory requirements of PRA and the Parent Bank's regulator RBI has instituted an Internal Capital Adequacy Assessment Process (ICAAP) which is used to estimate the capital requirements in line with the risk appetite of the Bank. The ICAAP is approved by the Board Risk Committee (BRC) of the Bank.

The amount and composition of the Bank's capital requirement is determined by assessing the minimum capital requirement under Pillar 1 based upon the Capital Requirements Directive (CRD), the impact of stress and scenario tests, the Bank's Individual Capital Guidance and the capital requirement that is consistent with the Bank's target external rating.

The following table shows the Bank's Pillar 1 capital requirement by each of the standardised credit risk exposure classes:

	USD million
Standardised approach – asset classes	Pillar 1 Capital requirement as at 31 March 2013
Central government or central banks	0.00
Institutions	24.37
Corporate	141.02
Retail	0.01
Securitised investments	12.75
Short term claims on institutions or corporate	55.89
CIU	0.89
Other items	6.75
<b>Total</b>	<b>241.69</b>

### 3. Counterparty credit risk

Counterparty credit risk (CCR) in the context of this disclosure is the risk that the counterparty to a derivative transaction posted to either the Banking Book or Trading Book could default before the final settlement of the transaction's cash flows.

The Bank measures exposure value on counterparty credit exposures under the CCR mark to market method. This exposure value is derived by adding the gross positive fair value of the contract (replacement cost) to the contracts potential credit exposure, which is derived by applying a multiple based on the contracts residual maturity to the notional value of the contract.

The Bank currently does not take any position with trading intent, but certain transactions may be classified as trading based on the applicable accounting guidelines. The Bank's trading book (as per accounting classification) includes the foreign exchange (FX) & derivative transactions entered on behalf of the clients. These transactions are covered by the Bank on a back to back basis. In addition, trading book also includes the ineffective hedges based on their accounting treatment and certain FX swaps entered into by the Bank to cover its interest and FX risk.

As at 31 March 2013, the notional principal values of the derivative instruments along with the gross positive and gross negative fair value were:

USD million

Instrument	Non- Trading	Trading		
	Notional Principal	Notional Principal	Gross Positive Fair value	Gross Negative Fair value
Exchange rate contracts	247,038	1,884,238	20,726	24,447
Interest rate contracts	586,741	1,592,906	54,891	38,369

The following table details the counterparty credit risk exposure calculation:

USD million

	Value
Gross positive fair value of contracts	75.62
Potential credit exposure	63.56
<b>Counterparty credit risk exposures</b>	<b>139.17</b>

### 4. Credit risk and dilution risk

#### Loan impairment provisions

The Bank regularly reviews its loan portfolios to assess for impairment. Impairment provisions are established to recognise incurred impairment losses in loan portfolios carried at amortised cost. In determining whether an impairment has occurred at the balance sheet date, the Bank considers whether there is any observable data indicating that there has been a measurable decrease in the estimated future cash flows or their timings; such observable data includes whether there has been an adverse change in the payment status of borrowers or changes in economic conditions that correlate with defaults on loan repayment obligations.

Collectively assessed impairment allowances cover credit losses inherent in portfolios with similar economic characteristics when there is objective evidence to suggest that they contain impaired claims, but the individual impaired items cannot yet be identified. In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors.

The following tables show amounts of the impaired and past due loans for the Bank as at 31 March 2013.

USD million

Loans and Advances	Specific impairment allowance	Collective impairment allowance	Total
Opening Balance	31.25	16.35	47.59
Write-offs	(19.22)	(0.68)	(19.90)
Recovery	0.00	0.00	0.00
Charge to P&L account	18.58	1.56	20.14
<b>Closing balance</b>	<b>30.61</b>	<b>17.22</b>	<b>47.83</b>

USD million

Loans and Advances	Specific impairment allowance
Europe and North America	19.77
India	10.83
Rest of the world	0.00
<b>Closing balance</b>	<b>30.61</b>

USD million

AFS Securities	Specific impairment allowance
Opening Balance	21.99
New charges	6.93
Write-offs	0.00
<b>Closing balance</b>	<b>28.92</b>

USD million

AFS Securities	Specific impairment allowance
Europe and North America	0.00
India	28.84
Rest of the world	0.08
<b>Closing balance</b>	<b>28.92</b>

### Valuation of financial instruments

The Bank values its investments at fair market value. The best evidence of fair value is a quoted price in an actively traded market. If the market for a financial instrument is not active, a valuation technique is used. The majority of valuation techniques employ only observable market data, and so the reliability of the fair value measurement is high. However, certain financial instruments are valued on the basis of valuation techniques that feature one or more significant inputs that are not market observable. Valuation techniques that rely to a greater

extent on non-observable inputs require a higher level of management judgement to calculate a fair value than those based wholly on observable inputs.

Valuation techniques used to calculate fair values include comparisons with similar financial instruments for which market observable prices exist. When valuing instruments by reference to comparable instruments, management takes into account the maturity, structure and rating of the instrument with which the position held is being compared.

### Analysis of credit risk exposures

The following tables detail the Bank's regulatory credit risk exposures as on 31 March 2013.

#### (i) Analysis of exposure by asset class

USD million

Asset class	Risk exposure as at 31 <sup>st</sup> March 2013
Central government or central banks	685.18
Institutions	510.64
Corporate	2,439.54
Retail	0.13
Securitised investments	192.09
Short term claims on institutions or corporates	886.26
CIU	11.15
Other items	84.98
<b>Total</b>	<b>4,809.96</b>

#### (ii) Geographic distribution of exposures (based on country of residence or domicile) by significant asset class

USD million

Exposure to corporate in	Exposure value
Europe and North America	2,440.55
India	409.38
Rest of the world	369.45
<b>Total</b>	<b>3,219.38</b>

USD million

Exposure to institutions in	Exposure value
Europe and North America	202.98
India	405.44
Rest of the world	8.75
<b>Total</b>	<b>617.18</b>

USD million

Exposure to securitised investments in	Exposure value
Europe and North America	192.09
India	0.00
Rest of the world	0.00
<b>Total</b>	<b>192.09</b>

## (iii) Residual maturity breakdown of exposures by significant asset class

USD million

Exposure to corporate with maturity of	Exposure value
Over 5 years	257.46
5 years or less but over 1 year	1,199.41
1 year or less but over 3 months	828.99
3 months or less	933.40
<b>Total</b>	<b>3,219.26</b>

USD million

Exposure to institutions with maturity of	Exposure value
Over 5 years	28.20
5 years or less but over 1 year	360.41
1 year or less but over 3 months	112.38
3 months or less	116.19
<b>Total</b>	<b>617.18</b>

USD million

Exposure to securitised investments with maturity of	Exposure value
Over 5 years	192.09
5 years or less but over 1 year	0.00
1 year or less but over 3 months	0.00
3 months or less	0.00
<b>Total</b>	<b>192.09</b>

**5. Credit risk: Standardised approach**

The Bank uses external credit assessments provided by Moody's, Standard & Poor's and Fitch. These are all recognised by the PRA as eligible external credit assessment institutions (ECAI) for the purpose of calculating credit risk requirements under the standardised approach.

The following table details the ECAIs used for the standardised credit risk exposure classes.

Asset class	ECAI
Central government or central banks	Standard & Poor's, Moody's, Fitch
Institutions	Standard & Poor's, Moody's, Fitch
Corporate	Standard & Poor's, Moody's, Fitch
Securitised investments	Standard & Poor's, Moody's, Fitch

The following tables detail the standardised credit risk exposures by credit quality steps (CQS):

CQS for long term corporate exposure	Risk weight %	Exposure USD million	Exposure after credit risk mitigation USD million
1	20.00%	0.00	0.00
2	50.00%	322.23	322.23
3	100.00%	354.31	354.31
4	100.00%	331.83	331.83
5	150.00%	64.08	64.08
6	150.00%	7.65	7.65
Unrated - non default	100.00%	2,088.46	2,088.46
Unrated – Past due	100.00%	6.02	6.02
Unrated – Past due	150.00%	44.79	44.79
<b>Total</b>		<b>3,219.38</b>	<b>3,219.38</b>

CQS for long term institutional exposure	Risk weight %	Exposure USD million	Exposure after credit risk mitigation USD million
1	20.00%	31.05	31.05
2	50.00%	87.01	87.01
3	50.00%	376.50	376.50
4	100.00%	0.00	0.00
5	100.00%	1.73	1.73
6	150.00%	0.00	0.00
Unrated – non default	50.00%	14.34	14.34
<b>Total</b>		<b>510.64</b>	<b>510.64</b>

CQS for short term institutional exposure	Risk weight %	Exposure USD million	Exposure after credit risk mitigation USD million
1	20.00%	27.61	27.61
2	20.00%	32.55	32.55
3	20.00%	21.69	21.69
4	50.00%	0.00	0.00
5	50.00%	0.00	0.00
6	150.00%	0.00	0.00
Unrated - non default	20.00%	0.37	0.37
Unrated – non default	50.00%	24.33	24.33
<b>Total</b>		<b>106.54</b>	<b>106.54</b>



CQS for securitised investments	Risk weight %	Exposure USD million	Exposure after credit risk mitigation USD million
1	20.00%	84.51	84.51
2	50.00%	14.09	14.09
3	100.00%	79.16	79.16
4	350.00%	13.65	13.65
5	1250.00%	0.00	0.00
6	1250.00%	0.68	0.68
<b>Total</b>		<b>192.09</b>	<b>192.09</b>

CQS for central government or central banks	Risk weight %	Exposure USD million	Exposure after credit risk mitigation USD million
1	0.00%	685.18	685.18
<b>Total</b>		<b>685.18</b>	<b>685.18</b>

Fixed assets and other assets attract a risk weight of 100%.

## 6. Exposures to equities in the non-trading book

The Bank has exposure to equities in the non-trading book as of 31 March, 2013.

CQS for CIU	Risk weight %	Exposure USD million	Exposure after credit risk mitigation USD million
Corporate	100.00%	11.07	11.07
Institution	50.00%	0.08	0.08
<b>Total</b>		<b>11.15</b>	<b>11.15</b>

## 7. Exposures to interest rate risk in the non-trading book

Interest rate risk – Interest rate risk is defined as the risk of loss which the Bank will incur as a result of an increase or decrease in interest rates. Interest income/expense from interest sensitive assets and liabilities are impacted by changes in interest rates. The overall value of the investment portfolio, the underlying value of the Bank's other assets, its liabilities, and off balance sheet (OBS) instruments are also impacted due to change in interest rates because the present value of future cash flows changes when interest rates change (economic value perspective).

In order to manage its interest rate risk in its banking book, the Bank has sets out various measurement process including use of re-pricing gap reports and estimation of the sensitivity of the NII to a range of interest rate change scenarios including a scenario of 200 basis points parallel movement in the yield curve (defined as - Earnings at Risk (EaR)).

The impact of an increase in interest rates on the Bank's net interest income as at March 31, 2013, assuming a parallel shift in the yield curve, has been set out in the following table:

Equivalent in USD million

Currency	Impact on net interest income	
	Increase in interest rates by 100 bps	Increase in interest rates by 200 bps
EUR	1.04	2.08
USD	5.86	11.71
GBP	1.87	3.73
Others	(0.86)	(1.71)
<b>Total</b>	<b>7.91</b>	<b>15.81</b>

The Bank also uses Duration of Equity ("DoE") as an all-encompassing measure, which takes into consideration duration and value of both assets and liabilities. DoE is a measure of interest rate sensitivity, which indicates the change in the market value of equity due to 1.0 % change in interest rates. Currently, a limit of +/- 5.0 has been prescribed for DoE. DoE of the Bank as at March 31, 2013 is (0.26).

Further, in case of adverse movement of interest rate there may be some unrealised mark to market (MTM) impact on investment portfolio. The impact of an increase in interest rates on fixed income (fixed and floating rate) investments as at 31 March 2013, (broken down by currency) assuming a parallel shift in yield curve, has been set out in the following table:

Equivalent in USD million

Currency	Impact on reserves	
	Increase in interest rates by 100 bps	Increase in interest rates by 200 bps
EUR	0.15	0.30
USD	7.40	14.80
GBP	0.05	0.10
Others	0.00	0.00
<b>Total</b>	<b>7.60</b>	<b>15.20</b>