

## **BASEL II DISCLOSURES**

### **1.1 General**

The BASEL II disclosures contained herein relate to Citibank N.A., India Branches (herein also referred to as the 'Bank') for the half year ended September 30, 2011. These are complied in accordance with Reserve Bank of India (the 'RBI') regulations on 'Implementation of New Capital Adequacy Framework' vide DBOD. No. BP.BC. 90/20.06.001/2006-07 dated April 27, 2007 as amended from time to time.

The Bank does not have any subsidiaries nor does it hold any significant stake in any company. The RBI guidelines on Financial Regulation of Systemically Important NBFCs and Banks' Relationship vide circular ref. DBOD. No. FSD. BC.46 / 24.01.028/ 2006-07 December 12, 2006 read with 'Guidelines for consolidated accounting and other quantitative methods to facilitate consolidated supervision' vide circular ref. DBOD.No.BP.BC.72/ 21.04.018/2001-02 dated February 25, 2003 mandate coverage of the 'Consolidated Bank' (herein also referred to as 'Citi'). This includes, in addition to the Bank (which is the banking subsidiary of Citigroup Inc. operating in India) as a branch of Citibank N.A , the following wholly/majority owned non banking finance companies, which are subsidiaries of Citigroup Inc. held through intermediary holding companies:

Citicorp Finance (India) Limited  
CitiFinancial Consumer Finance India Limited  
Citicorp Maruti Finance Limited

Investments in below mentioned companies have been deducted from the capital of respective parent companies:

Citicorp Capital Markets Limited  
Citicorp Clearing Services India Limited  
CitiFinancial Home Finance India Limited

As prescribed in the above guidelines, the Bank is not required to prepare consolidated financial statements. However, certain prudential guidelines apply on a Consolidated Bank basis, including that of capital adequacy computation under Basel II guidelines.

No quantitative disclosures shall apply since there are no subsidiaries of the Bank. Further, the Bank does not have any interests in insurance entities.

As per Basel II capital adequacy guidelines, RBI requires banks to make disclosures for half yearly results on Solo basis. Hence, in line with these requirements below mentioned disclosures relate to Citibank N.A. India branch only.

### **1.2 Capital Structure**

The capital funds of the bank include the following:

Tier 1 Capital:

1. Interest-free funds from Head Office specifically for the purpose of meeting the capital adequacy norms.
2. Statutory reserves calculated at 25 % of each year's profit.
3. Capital reserve not eligible for repatriation so long as the Bank functions in India.
4. Other free reserves
5. Remittable surplus

Tier 2 Capital:

1. Revaluation reserves arising from revaluation of the premises owned after a discount of 55%
2. General Provisions on Standard Assets
3. Subordinated debt

Quantitative disclosures:

	Sep 30, 2011	Rs. in Million Sep 30, 2010
<b>Tier I Capital</b>		
Interest-free funds from Head Office	37,438	37,438
Capital Reserves	2,245	2,084
Statutory reserve	27,601	24,039
Remittable Surplus	68,819	68,196
	<u>136,104</u>	<u>131,757</u>
<u>Deductions:</u>		
Debit balance in Head office account		-
Intangible assets	1,781	1,676
Deferred Tax asset	2,815	3,624
Credit Enhancement on securitisation (50%)	93	102
Other deductions	3	-
Total deductions	<u>4,692</u>	<u>5,402</u>
<b>Tier I Capital</b>	<u>131,412</u>	<u>126,355</u>
<b>Tier II Capital</b>		
Preference Share capital		-
Property Revaluation Reserves	1,621	1,520
Investment Reserve		-
General Loss provision on Standard assets	5,034	5,018
Sub-ordinated term debt		-
	<u>6,655</u>	<u>6,538</u>
<u>Deductions:</u>		
Credit Enhancement on securitisation (50%)	93	102
Total deductions	<u>93</u>	<u>102</u>
<b>Tier II Capital</b>	<u>6,563</u>	<u>6,436</u>
<b>Total Capital Funds</b>	<u>137,975</u>	<u>132,791</u>
<u>Sub-ordinated term debt</u>		
Amount outstanding		-
Amount raised during the year		-
Amount eligible to be reckoned as capital funds	-	-

### 1.3 Capital Adequacy

The Bank has in place processes to assess and maintain on an ongoing basis the amounts, types and distribution of internal capital that they consider adequate to cover the nature and level of the risks to which they are or might be exposed. The capital plan is put up to the Local Operations Management Committee (LOMC) for review and approval from time to time. The Bank India Branch is primarily engaged in providing wholesale, retail and private banking services.

The Bank has an Internal Capital Adequacy Assessment Process (ICAAP) which establishes a framework for the Bank to perform a comprehensive assessment of the risks they face and to relate capital adequacy to these risks. Further more, the capital analysis performed by the Bank is expected to encompass all significant risks, not only those risks captured by the Pillar 1 minimum regulatory capital calculation. A long tenor capital forecast is prepared for the Bank and reviewed by the senior management team.

Citi uses a Risk Based Capital framework to capture and quantify risks across the business. The returns of the products or line of activity are assessed in relation to the risk capital and is tested against the benchmark.

As required under the Basel II guidelines issued by the Reserve Bank of India, the Bank has adopted Standardised Approach (SA) for credit risk, Standardised Duration approach (SDA) for computing capital requirement for market risks and Basic Indicator Approach (BIA) for operational risk.

Capital requirements for credit risk:

Category	Nature	Rs. in Million			
		Sep 2011		Sep 2010	
		Risk weighted assets	Capital Charge	Risk weighted assets	Capital charge
Wholesale exposures	Generally includes exposures to Banks, Financial Institutions and Corporates	465,817	41,924	473,735	42,636
Retail exposures	Generally includes exposures to individuals and households, small businesses of a retail nature	194,957	17,546	162,430	14,619
Securitisation exposures	Includes credit enhancement which is reduced from Capital funds (refer capital funds details at 1.2 above)	185	185	175	175

Capital requirements for market risk:

Category	Nature	Rs. in Million			
		Sep 2011		Sep 2010	
		Risk weighted assets	Capital charge	Risk weighted assets	Capital charge
Interest rate risk	Includes specific and general risk on interest rate instruments in the trading book	41,692	3,752	55,141	4,963
Foreign exchange risk	Includes specific and general risk on currencies (including gold)	12,044	1,084	10,845	976
Equity risk	Includes specific and general risk on equity instruments	214	19	147	13
Total		53,950	4,856	66,133	5,952

Capital requirements for operational risk:

Per the Basic Indicator approach for Operational risk the Bank is required to maintain capital at the rate of 15 % of average gross income of previous three years. The risk weighted assets for operational risk are calculated by dividing the operational risk capital charge by 9%. The capital requirement for Operational risk is Rs.9,860 million.

Capital adequacy ratio

Entity	As at Sep 30, 2011			As at Sep 30, 2010		
	Total capital ratio	Tier I Capital ratio	Tier II Capital ratio	Total capital ratio	Tier I Capital ratio	Tier II Capital ratio
Citibank N.A.	16.73%	15.93%	0.80%	16.54%	15.74%	0.80%

#### **1.4 Credit risk: General Disclosures**

The three principal businesses of Citibank viz Corporate Banking, Commercial Banking and Consumer Banking approve and implement policies and procedures appropriate to their respective risk, business and portfolio. These policies address risk measurement, reporting, monitoring, mitigation and remediation. Seniors in the credit and business chain are involved in all policy recommendations and review the portfolio on a regular basis.

For Corporate Bank, the Global Credit Policy along with the Local Credit Policy lays down the parameters/norms for credit exposure. Based on the industry studies and detailed company analysis and after considering the Target Market Norms & Risk Acceptance Criteria, credit is approved. Business as well as Independent Risk Management unit needs to approve annual reviews. Wherever required, Industry specialist and product specialists review and approve sizeable credits. Credit approval limits are granted based on experience and seniority. The Bank has a policy of internal rating on a global scale to assign Obligor Risk Ratings (ORRs). ORRs define one-year probability of default and are continuously monitored. The bank also assigns an Obligor Limit Rating (OLR), which provides a medium to long-term view of credit quality. Approval authority is defined as per Credit Facilities Approval Grid, which requires higher level of authority to approve exposures with on the OLR scale ranging from high to low.

The Commercial Markets Business Credit Policies and Procedures define the guidelines and policies under which portfolio is managed supplemented by Credit Programs and MME framework. The sales team prospects customers within approved industry segments. The due diligence is performed by Independent Risk who assesses the borrowing requirements and recommends facilities within the parameters set out by the credit programs / framework. The due diligence process includes, but is not restricted to, obtaining adequate market information and reference checks from buyers, suppliers, bankers and competitors. All proposals are approved by two officers in Independent Risk at least one of whom has credit initials to cover the facilities proposed.

Consumer banking has an independent Policy Unit, which recommends lending policy, review portfolio and take credit actions. This is supported by a credit operations unit, which reviews proposals for adherence to laid down policies as well as does all verifications prior to disbursal of credit. Credit appraisal is independent of the business stream to ensure unbiased credit judgment.

#### **NORMS FOR DETERMINING WHEN TO CLASSIFY VARIOUS TYPES OF ASSETS AS NON-PERFORMING**

The Bank follows the RBI guidelines for asset classification, which are briefly described herein below.

Term Loans and Consumer loans are treated as a non-performing if the interest and/ or installments of principal remain overdue for a period of more than 90 days.

Cash credits & Overdrafts are treated as non- performing if it remains 'out of order' for a period of more than 90 days.

An account will be treated "out of order" if the outstanding balance remains continuously in excess of the sanctioned limit/drawing power. In case where the outstanding balance is less than the sanctioned limit/drawing power, but there are no credits continuously for three months as on balance-sheet date or credits are not enough to cover the interest debited during the same period, these accounts will be treated as out of order.

Bills purchased /discounted are treated as non-performing if the bill remains overdue and unpaid for a period of more than 90 days during the financial year.

Any other facility (including dues on forward exchange and derivative contracts) will be treated as non- performing if any amount to be received remains overdue for a period of more than 90 days.

Quantitative disclosures:

i) **Total Gross Credit Exposure by Industry and geography:**

Rs. in Millions

Particulars	As at 30th Sep 2011		As at 30th Sep 2010	
	Funded	Non Funded	Funded	Non Funded
Advertising	0	6	-	-
Apparel/Footwear	17	4	-	-
Banks	202,836	169,243	197,067	138,002
Beverage & Tobacco	12,384	3,022	8,297	1,785
Business Financing Companies	20	-	-	-
Business Services	-	5	114	2
Cement and Cement Products	1,224	888	954	814
Computer Facilities Management Services	10	9	-	-
Computer Software	13,633	10,892	16,009	9,265
CONSTRUCTION	3,186	528	2,242	558
Credit Cards	46,198	-	44,049	-
Drugs & Pharmaceuticals	25,467	5,500	14,144	4,149
Edible Oils & Vanaspati	929	97	666	8
Electronics	10,229	8,450	8,713	5,795
Fertilizers	276	20	-	-
Gems and Jewellery	23	6	-	-
Glass and Glass Ware	1,075	658	354	125
Hospitals	2	2	-	-
Iron & Steel	9,746	7,838	5,884	7,162
IT & Business Services	0	0	-	-
Leather And Leather Products	1,307	189	1,093	49
Management Investment	0	3	-	-
Manufacturing Industry	266	85	186	23
Mining & Quarrying	595	2,509	-	-
Mortgage	81,587	-	85,182	3
Other Chemicals	18,311	7,776	-	-
Other Engineering	17,973	19,381	13,673	14,405
Other Food Processing	9,765	2,198	-	-
Other Industries	175,877	28,923	179,234	115,551
Other Infrastructure	51	-	-	-
Other Metal and Metal Products	19,977	5,969	-	-
Other Services	-	5	-	-
Other Textile	11,601	5,244	-	-
Paper and Paper Products	7,753	385	2,563	819
Personal Loans	11,347	-	16,781	-

Petro Chemicals	2,061	430	595	96
Petroleum, Coal Products and Nuclear Fuels	12,203	20,054	10,553	14,610
Power	833	896	1,311	890
Printing & Publishing	11	9	-	-
Professional and other services	47,024	10,188	42,236	7,220
Recruitment	-	0	-	-
Retail Food Stores	-	1	-	-
Roads and Ports	-	32	-	-
Rubber, Plastic & their Products	710	577	-	-
Security Brokers & Dealers	24	4	-	-
Shipping	2,493	1,247	3,266	3,557
Sovereign	372,666	-	388,897	-
Sugar	23	52	9	122
Telecommunications	25,835	8,893	14,283	3,767
Tourism	400	7	90	-
Traders	-	3	-	-
Trading	130	75	568	72
Transport Operators	3,116	1,303	233	1,121
Transportation	99	5	-	-
Vehicles, Vehicles part and Transport Equipment	31,025	9,536	27,968	8,197
Wood and Wood Products	7	-	-	-

ii) Residual contractual maturity breakdown of assets as at September 30, 2011

Maturity Bucket	Rs. in Million	
	As at Sep 30, 2011	
	Loans and Advances	Investments
Day 1	2,611	0
2 to 7 days	10,519	12,091
8 to 14 days	9,021	10,015
15 to 28 days	21,754	5,215
29 days to 3 months	67,890	100,740
Over 3 months to 6 months	78,673	16,213
Over 6 months to 12 months	48,296	130,204
Over 1 year to 3 years	108,284	4,754
Over 3 years to 5 years	19,704	39,319
Over 5 years	84,641	63,147
Total	451,393	381,698

Residual contractual maturity breakdown of assets as at September 30, 2010

Maturity Bucket	Rs. in Million	
	As at Sep 30, 2010	
	Loans and Advances	Investments
Day 1	13,457	209,168
2 to 7 days	5,549	0
8 to 14 days	9,088	0
15 to 28 days	27,694	33,340
29 days to 3 months	61,507	29,712
Over 3 months to 6 months	41,136	12,397
Over 6 months to 12 months	39,338	15,431
Over 1 year to 3 years	94,387	88,979
Over 3 years to 5 years	19,914	232
Over 5 years	58,263	2,203
Total	370,334	391,462

iii) Amount of NPAs (Gross) Rs. In Million

Particulars	As at Sep 30, 2011	As at Sep 30, 2010
Substandard	3,564	6,961
Doubtful 1	618	608
Doubtful 2	800	1,377
Doubtful 3	797	490
Loss	441	464

iv) Net NPAs: Rs. 2,773 Million (Previous year: Rs. . 4,965 Million)

v) NPA ratios:

- Gross NPAs to gross advances: 1.37% (Previous year: 2.64%)
- Net NPAs to net advances: 0.17% (Previous year: 1.34%)

vi) Movement of NPAs

Particulars	Rs. in Million					
	As at Sep 11			As at Sep 10		
	Gross NPA	Provision	Net NPA	Gross NPA	Provision	Net NPA
Opening Balance as on Apr 1	8,387	3,459	4,928	12,754	4,910	7,845
Additions net off recoveries & write offs	(2,166)	(12)	(2,154)	(2,854)	25	(2,880)
Closing Balance as on Sep 30	6,221	3,446	2,774	9,900	4,935	4,965

vii) Non-performing Investments: Nil

viii) Provision for NPIs: Nil

ix) Movement of provisions held towards depreciation on investments

Particulars	Rs. in Million	
	As at Sep 11	As at Sep 10
Opening Balance as on April 1	9,262	6,072
Additions /Recoveries during the year	-1,303	1,042
Closing Balance as on Sep 30	7,959	7,114

### 1.5 Credit Risk: disclosures for portfolios subject to the standardized approach

The Bank has approved use of ratings issued by CRISIL Limited, Fitch India and ICRA Limited for local exposures as permitted by Reserve Bank of India. For the foreign exposures the ratings assigned by Standard & Poor's, Moody's and Fitch are used by the Bank.

Where the obligors have obtained rating of the facility from any of the above credit rating agencies, the Bank has applied the risk weights relevant to the ratings so assigned. Where the obligors have not yet obtained such a rating, the exposure has been taken as unrated and appropriate risk weights applied.

The breakdown of the exposure (after mitigation) is as under:

Particulars	Rs. in Million	
	As at Sep 30, 2011	As at Sep 30, 2010
Below 100% risk weight	1,038,126	977,209
100% risk weight	297,927	347,834
More than 100% risk weight	149,543	83,367
Deducted	0	205

### 1.6 Credit risk mitigation

The Bank has a three-stage approach to credit risk mitigation i.e. pre-disbursement due diligence, credit approval and post disbursement monitoring. The policies are individually varied for the corporate, retail and Small and Medium Enterprises (SMEs) segments. Risk mitigation and defeasance techniques are utilized as appropriate in the various lines of business. While security and support are used by the corporate bank as risk mitigants, various risk mitigation tools such as rewrite and settlement programs are used in the consumer bank based on well-defined policies and processes. Ongoing calculation and monitoring ensures that the management is comfortable with the residual risk, which is adequately supported by the capital employed.

Credit review in Retail segment is based on an analysis of portfolio behaviour as opposed to any judgmental review at an obligor level. Pre-disbursement due diligence involves appraisal and legal verification of collateral documents. The legal documentation is vetted and pre-approved.

For SME segment, as per RBI guidelines, the Bank has adopted the comprehensive approach that allows fuller offset of collateral against exposures, by effectively reducing the exposure amount by the value ascribed to the collateral. Under this approach, eligible financial collateral is reduced from the credit exposure to counterparty when calculating their capital requirements subject to hair cuts as prescribed under the guidelines. Credit collateral information is maintained by the Credit Administration. This data is available at facility level and is being used for reporting purposes.

The eligible collaterals used by the Bank as risk mitigants are in the form of cash margin deposits, term deposits and eligible guarantees for arriving at the benefit for capital adequacy purposes. Corporate/parent guarantee etc. do act as a risk mitigant but not taken benefit of when computing the prudential ratios. Given the nature of collateral, the Bank does not have any concentration risk within the mitigants accepted by the Bank.



Exposure covered by eligible financial collateral after application of hair cut:

Category	Nature	As at Sep 30, 2011	As at Sep 30, 2010
Wholesale exposures	Generally includes exposures to Banks, Financial Institutions and Corporates	730	3,158
Retail exposures	Generally includes exposures to individuals and households, small businesses of a retail nature	0	0
Securitisation exposures	Includes credit enhancement which is reduced from Capital funds (refer capital funds details at 1.2 above)	Nil	Nil

Exposure covered by guarantees:

Category	Nature	As at Sep 30, 2011	As at Sep 30, 2010
Wholesale exposures	Generally includes exposures to Banks, Financial Institutions and Corporates	280	244
Retail exposures	Generally includes exposures to individuals and households, small businesses of a retail nature	Nil	Nil
Securitisation exposures	Includes credit enhancement which is reduced from Capital funds (refer capital funds details at 1.2 above)	Nil	Nil

## 1.7 Securitisation

Securitisation risk includes the risk that the capital resources held by the firm in respect of assets which it has securitised or participated in any third party securitisation transactions are inadequate having regard to the economic substance of the transaction, including the degree of risk transfer achieved. Typically, in securitisation transactions bank acts as an originator, servicing agent, investor in pass through certificates and provider of credit enhancement or as guarantor.

As an Originator, assets in the form of loan receivables held on the books of the bank are assigned to an independent Special Purpose Vehicle (SPV) which is created as a specific trust by an independent third party acting as the Trustee. The Bank does not have any role in the formation or management of SPVs. The Bank has not sponsored any off-balance sheet vehicles for the purpose of securitisation. The Bank does not provide any direct or indirect support to the SPV. The Bank is not responsible for the solvency or otherwise of the SPV nor is it concerned with any gains or losses that the SPV may make. The Bank obtains True sale opinion and loans so securitised are recorded as sales once the management is satisfied that control over the underlying assets has been transferred. Pursuant to RBI guidelines, the gain arising on securitisation of portfolio, which is the difference between sale consideration and book value of loans, is deferred and recognised in profit and loss account over the life of securities issued by the SPV. Loss, if any, is recognised on upfront basis in the profit and loss account. Expenses relating to securitisation namely rating fees, trusteeship fees and legal expenses are charged to the profit and loss account. Where the Bank is acting as a servicing agent it earns servicing income from the transaction. In certain securitisation structures, the Bank would have retained interest in the form of excess interest strips (also called Interest only strips receivable - IOSR). The Bank provides credit enhancement to support the transaction in the form of guarantee, cash collateral and subordination of IOSR. The Bank has not held any Pass Through Certificates (PTCs) for securitisation transactions where it has acted as originator. The credit enhancements provided by the Bank is deducted from capital funds. Apart from the credit enhancements the Bank does not have any continuing obligation/ exposure from the securitisation except IOSR which is not offered as credit enhancement. The Bank does not hold any securitisation exposures in its trading books as an investor or otherwise. Bank is not running any pipeline and warehousing risks with regard to its asset book.

Following the decline in transactions in securitisation market over last several years, the Bank has not carried out any retail loan securitisations. The wholesale loan securitisation has been largely restricted to single or more

corporate loans securitisation not involving any ‘packaging’ or ‘repackaging’ of receivables. In these transactions the Bank has not retained any interest in the transactions nor has the Bank provided any credit enhancement. With these transactions bank has been able to provide required finance to the corporate based on their credit strength despite the general degrowth in the asset book of the Bank. Bank has been able to achieve full risk defeasance by doing these securitisations. None of these wholesale loan assets are of a ‘subprime’ nature.

As regards the securitisation transactions carried out in the past years, the outstanding position is not significant and the Bank has already built up adequate provision for losses on them. The Bank does not carry any securitisation exposures as an investor. As regards, exposures as an originator of the transactions, the Bank monitors the performance of the portfolios and credit risk thereon and appropriately treats from a capital adequacy perspective. The Bank has not used any credit risk mitigants with regard to securitisation transactions.

Quantitative Disclosures (Banking Book):

<b>Particulars:</b>	<b>Rs. in Million</b>	
	<b>Sept 30, 2011</b>	<b>Sept 30, 2010</b>
Total amount of exposures securitised by Citi		
Corporate Loans	Nil	Nil
For exposures securitised losses recognised by Citi during the current period broken by the exposure type	Nil	Nil
Corporate Loans	Nil	Nil
Amount of assets intended to be securitised within a year	Nil	Nil
Of above, amount of assets originated within a year before securitisation	Nil	Nil
Unrecognised gain on securitisation of deals	0	3
Unrecognised loss on securitisation of deals	Nil	Nil
Aggregate amount of On-Balance Sheet securitisation exposures retained or purchased		
IOSR (subordinated)	7	6
IOSR (non-subordinated)	7	11
Cash Collaterals	178	139
Investment in Pass Through Certificates (PTCs)	Nil	Nil
Aggregate amount of off-balance sheet securitisation exposures		
Guarantees	0	18
Exposures that have been deducted entirely from Tier 1 and Tier 2 capital		
IOSR (subordinated)	7	6
IOSR (non-subordinated)	7	11
Cash Collaterals	178	139
Guarantees	0	18

Aggregate amount of securitisation exposures retained and the associated capital charges, broken down between exposures and further broken down into different risk weight bands for each regulatory capital approach:

Exposure Type	Capital Approach	2010-11			2009-10		
		Amount	Rating	Capital Charge	Amount	Rating	Capital Charge
IOSR (subordinated)	Deducted from capital	7	Unrated	7	6	Unrated	6
IOSR (non-subordinated) 1	Not Deducted from capital	7	Unrated	7	11	Unrated	11
Cash Collaterals	Deducted from capital	178	Unrated	178	139	Unrated	139
PTC Tranche 1	Forms part of RWA	Nil	Nil	Nil	Nil	Nil	Nil
Guarantees	Deducted from capital	Nil	Nil	Nil	18	Unrated	18

The Bank has from time to time used ratings of CRISIL Limited, ICRA Limited and Fitch India for rating its securitisation transactions.

There are no quantitative disclosures required to be made for trading book as Citi is not holding any position.

### 1.8 Market risk in trading book

Market Risk is the risk of loss due to changes in the market values of the Bank's assets and liabilities caused by changing interest rates, currency exchange rates and security prices.

The capital charge for interest rate related instruments and equities would apply to current market value of these items in Banks trading book. Since the Bank is required to maintain capital for market risks on an ongoing basis, the trading positions are marked to market on a daily basis. The current market value is determined as per extant RBI guidelines on valuation of investments.

The minimum capital requirement is expressed in terms of two separately calculated charges: Specific risk charge for each security, which is designed to protect against an adverse movement in the price of an individual security owing to factors related to the individual issuer. General market risk charge, which is towards interest, exchange and price risk in the portfolio in different securities or instruments.

Specific charge is computed in line with the rates for capital charge provided under the RBI guidelines on Prudential Norms on Capital Adequacy. The capital requirements for general market risk are designed to capture the risk of loss arising from changes in market interest rates. The Bank follows the duration method for measurement of the general market risk charge on investments portfolio. Measurement of market risk charge for interest rates include all interest rate derivatives and off-balance sheet instruments in the trading book, which react to changes in interest rates. The Bank has adopted intermediate approach for measuring the price risk for options. Options are reported as a position equal to the market value of the underlying multiplied by the delta. In addition, capital charge is also provided for the gamma and vega risk.

Capital charge for market risks in foreign exchange is 9 % on the open position limit of the Bank. This capital charge is in addition to the capital charge for credit risk on the on-balance sheet and off-balance sheet items pertaining to foreign exchange.

On the equity position in the investment portfolio capital charge has been maintained at 11.25% for specific risk and 9% for general risk.

The Bank is integrated into the overall Citigroup risk and control framework, balancing senior management oversight with well-defined independent risk management functions. It is the responsibility of the senior management of the Bank to implement Citigroup policies and practices, to oversee risk management, and to respond to the needs and issues in the Bank. The Bank's policy is to control material market risks through a framework of

limits & triggers which are approved by LOMC and to manage any residual exposure through a series of sensitivity analyses, scenario tests and robust controls over calculating, monitoring and reporting results.

The risk appetite is largely determined and controlled due to regulatory limits on foreign exchange and interest rate exposure. The spot foreign exchange exposure is limited through Net Open Position which is approved by RBI and the interest rate exposure on derivatives is controlled through the gross PV01 limit which is restricted to 0.25% of the networth of the Bank as required by RBI. Further, the aggregate interest rate exposures on trading account is limited by limits on PV01 which is much below the stipulated Gross PV01 limits established by RBI.

Risk is measured in terms of:-

- (a) factor sensitivities (DV01 – impact of change of rates by one basis point) for interest rate products, FX Delta for Spot position, Vega and Gamma limits for FX Options. These measures & limits are further sub-divided for each yield curves and currencies.
- (b) Value-at-risk Trigger, which measures maximum potential loss at 99% confidence level over 1-day holding period based on the day's outstanding risk positions across the entire mark-to-market exposures.
- (c) Loss Triggers: The Trading book and available for sale book profit and loss monitored against month-to-date and inception-to-date (for available for sale) Loss Triggers.
- (d) Aggregate Contract Trigger Limits: The notional positions for swaps (INR, FCY and cross-currency) and options are monitored against these limits.

All market risk taking activity in Citibank N.A. India is centralised with Treasury and undertaken by authorised dealers. The Treasury is subject to limits and triggers across all products and risk factor. The Bank's Risk Management Policy approved by LOMC defines the process and procedures of limit approvals, changes, delegation, reporting and escalation in case of limit excesses and trigger breaches. The independent Market Risk Management reports and monitors the trading risk exposures against approved limits and triggers on a daily basis. An excess or a breach is reported and dealt with appropriately for corrective action with reporting to ALCO, Senior Market Risk Management and Corporate Treasury.

Capital requirements for market risk:

Category	Rs. in Million			
	As at Sep 30, 2011		As at Sep 30, 2010	
	Risk weighted assets	Capital charge	Risk weighted assets	Capital charge
Interest rate risk	41,692	3,752	55,141	4,963
Foreign exchange risk (including gold)	12,044	1,084	10,845	976
Equity position risk	214	19	147	13
Total	53,950	4,855	66,133	5,952

## 1.9 Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Citibank N.A. India Branch is primarily engaged in commercial and consumer banking operations. Many of these activities carry a high degree of operational risk. Although the Bank's appetite for this type of business is clearly high, management places a very high value on maintaining an effective control environment to mitigate this. The appetite for residual operational risk is relatively low. There is satisfactory organizational set up for the management of Operational risk.

Citi's Risk and Control Self-Assessment (RCSA), in conjunction with the Operational Risk Standards process is the primary mechanism for identifying operational risks to which the organization is exposed. The Bank has an Operational risk governance structure defined by the Risk and Control Self-Assessment/Operational Risk Policy and Standards. The RCSA process and the operational risk process establish a foundation on which the activities of the

sectors and functions, the resulting operational risks, and the associated controls are identified, periodically assessed, subjected to corrective action, appropriately documented, and communicated. The operational risk process is utilized to promote transparency, facilitate senior management and LOMC awareness and understanding of operational risk loss experience and exposures and to encourage the utilization of risk indicators to manage operational risks. The operational risk process is made up of components to identify and assess key operational risks, establish key risk indicators and perform comprehensive operational risk reporting. Senior management committee reviews results of RCSA testing and operational risk framework and identifies areas where the management of the operational risk can be strengthened. Operational Risk data is captured in a systematic manner to provide the details of the nature of the operational loss, key controls that failed and the preventive measures/corrective actions in respect of the same and the same reported to the committee.

The Bank has a separate function assigned with the responsibility for establishing and providing independent oversight of the operational risk management framework for Citibank, including data collection and risk measurement standards. This function is also responsible for ensuring the communication of aggregate Citi-wide operational risk exposures and loss experience to the senior management. Further, Audit Risk and Review function provides independent assessment and evaluation of Citibank's compliance with the policy, including assessing the adequacy and effectiveness of the risk management and control processes for operational risk measurement methodology and systems.

Citi has adopted the basic indicator approach to operational risk for capital adequacy computation. Given the low experience of actual operational loss events, this is more than adequate to support this risk.

#### 1.10 Interest rate risk in banking book (IRRBB)

Interest rate risk represents the Bank's exposure to adverse movements in interest rates with regard to its non-trading exposures. Interest rate risk is measured by doing a gap analysis as well as factor sensitivity analysis. Business-specific assumptions underlying these measurements, e.g., tenor bucket used for demand deposits, are documented and models used to measure interest rate risk are independently reviewed. Interest rate gap analysis utilizes the maturity or repricing schedules of balance sheet items to determine the differences between maturing or repricing items within given tenor buckets. Interest rate exposure (IRE) measures the potential pre-tax earnings impact, over a specified reporting period, for the accrual positions, from a defined change in the yield curve. Residual market risk is also monitored using a series of measures, including factor sensitivities (PV01) and stress testing. Factor sensitivities (PV01) are expressed as the change in the value of a position for a defined change in a market risk factor, such as a change in the value of a position for a one basis point change in interest rates. Independent Market Risk Management monitors factors for all relevant market risk.

The Bank undertakes Stress Testing for its banking book to assess the likely absolute loss and its impact on the net worth of the bank. Interest Rate stress parameters are based on sophisticated statistical analysis which provides tenor based stress parameter for different interest rate scenarios. The stress impact is estimated by multiplying factor sensitivity (dv01) for each tenor by the relevant tenor stress parameter which is further aggregated for each interest rate scenario. The stress impact as provided below is based on the worst loss interest scenario thereby capturing the direction of the interest rate risk positioning across the yield curve. The size of the stress parameter differs for each tenor and for each interest scenario reflecting the underlying economic condition.

Impact on earnings/ economic value/ capital for interest rate shocks by currency:

Currency	As at Sep 30, 2011		As at Sep 30, 2010	
	Earnings	Capital	Earnings	Capital
INR	1,369	5,484	271	5,784
FCY	43	66	63	32
Total	1,412	5,550	334	5,816

Rs. in Million