

## **BASEL III DISCLOSURES**

### **1.1 General**

The BASEL III disclosures contained herein relate to Citibank N.A., India Branches (herein also referred to as the 'Bank') for the half year ended September 30, 2014. These are compiled in accordance with Reserve Bank of India (the 'RBI') regulations on 'Guidelines on Composition of Capital Disclosure Requirements' dated May 28, 2013.

### **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. Floating provision
4. Investment Reserve
5. Provision retained on assets sold to ARC.

**Quantitative disclosures:**

	Rs. in Million	
	Standalone Sept 30, 2014	Consolidated Sept 30, 2014
<b>Tier I Capital</b>		
Common Shares (Paid-up equity Capital)	-	28,933
Statutory Reserves	-	4,437
Other disclosed free reserves	-	246
Balance in profit & Loss account at the end of previous financial year	-	78
Current Financial profit, to the extent admissible	-	1,947
Interest free funds from H.O (for foreign bank)	37,438	37,438
Statutory Reserves kept in Indian book for foreign bank	46,433	46,433
Remittable Surplus retained in Indian books	68,819	68,819
Capital Reserves (non-patriable surplus from sale of assets in India)	1,098	1,098
Interest free funds remitted from abroad for acquisition of property and held in separate account	619	619
Any other instrument permitted by RBI	2,118	2,118
Common Equity Tier I	<b>156,527</b>	<b>192,169</b>
Regulatory Adjustments		
Intangibles	3,246	3,268
Deferred Tax Asset	4,838	9,000
Defined benefit Pension fund asset	482	482
Total Regulatory Adjustments	<b>8,565</b>	<b>12,750</b>
Total Tier I Capital (A)	<b>147,961</b>	<b>179,419</b>
<b>Tier II Capital</b>		
General Provision and loss reserves	5,017	5,154
Revaluation Reserves at discount of 55%	1,463	1,463
Any other instrument permitted by RBI for inclusion in Tier 2 capital	4,576	4,576
	11,056	11,193
Regulatory Adjustments		
Regulatory adjustment applied in respect of amount related to pre-Basel III treatment	0	0
Total Regulatory Adjustments	0	0
Total Tier II Capital (B)	<b>11,056</b>	<b>11,193</b>
Total of Tier I + Tier II (A) + (B) = (C)	<b>159,018</b>	<b>190,612</b>

**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. Furthermore, 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 III guidelines issued by the Reserve Bank of India, the Bank has adopted Standardized Approach (SA) for credit risk, Standardized Duration approach (SDA) for computing capital requirement for market risks and Basic Indicator Approach (BIA) for operational risk.

Capital requirements for credit risk:

		Rs. in Million			
Category	Nature	Standalone		Consolidated	
		As at Sept 30, 2014		As at Sept 30, 2014	
		Risk weighted assets	Capital charge	Risk weighted assets	Capital charge
Wholesale exposures	Generally includes exposures to Banks, Financial Institutions and Corporates	556,325	50,069	610,276	54,925
Retail exposures	Generally includes exposures to individuals and households, small businesses of a retail nature	263,187	23,687	266,792	24,011
Securitization exposures	Includes credit enhancement which is reduced from Capital funds (refer capital funds details at 1.2 above)	0	0	0	0

Capital requirements for market risk:

		Rs in Million			
Category	Nature	Standalone		Consolidated	
		As at Sept 30, 2014		As at Sept 30, 2014	
		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	72,463	6,522	72,897	6,561
Foreign exchange risk	Includes specific and general risk on currencies (including gold)	18,141	1,633	18,144	1,633
Equity risk	Includes specific and general risk on equity instruments	280	25	5,262	474
<b>Total</b>		<b>90,884</b>	<b>8,180</b>	<b>96,303</b>	<b>8,667</b>

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.10,955 million for standalone and Rs.11,486 million for consolidated.

Capital adequacy ratio

Entity	As at Sept 30, 2014		
	Total capital ratio	Tier I Capital ratio	Tier II Capital ratio
Citibank N.A. (Standalone)	14.30%	13.31%	0.99%
Citibank N.A. (Consolidated)	15.96%	15.02%	0.94%

**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 disbursement 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 Million

Particulars	Standalone		Consolidate	
	Funded	Non-Funded	Funded	Non-Funded
Agriculture & Allied Activities	1,122	39	2,357	39
Aviation	5	1,509	5	1,509
Banks	134,998	79,926	138,821	80,776
Beverage & Tobacco	13,250	5,026	13,250	5,026
Cement and Cement Products	2,214	583	2,214	583
coal	-	20	-	20
Computer Software	17,529	26,741	17,530	26,741
CONSTRUCTION	1,667	157	8,527	372
Drugs & Pharmaceuticals	25,501	10,922	25,516	11,022
Edible Oils & Vanaspati	352	689	352	689
Electricity	3,269	3,608	3,269	3,608
Electronics	12,417	10,465	12,419	10,465
Energy Gas/LNG	0	-	0	-
Fertilizers	1,384	2,017	1,384	2,017
Gems and Jewellery	363	241	363	241
Glass and Glass Ware	2,012	266	2,012	266
Iron & Steel	2,392	7,341	2,392	7,341
Leather And Leather Products	4,051	298	4,051	298
Mining & Quarrying	4,739	3,409	7,239	3,409
Other Food Processing	6,674	1,434	6,680	1,436
Other Industries	112,450	128,674	112,400	128,674
Other Infrastructure	657	35	657	35
Other Textile	4,186	815	4,310	939
Others Metal and Metal Products	11,988	6,284	12,688	6,303
Others-Chemicals	16,208	4,545	16,208	4,548
Others-Engineering	45,526	10,872	45,526	10,877
Paper and Paper Products	9,769	1,511	9,797	1,522
Petro Chemicals	11,895	6,564	11,895	6,564
Petroleum	20,104	4,077	20,104	4,077
Professional and other services	607,721	83,263	614,386	84,554
Railways ( Other than Indian Railway)	-	259	-	259
Retail trade	1,232	2,129	1,232	2,129
Roads and Ports	362	7	362	7
Rubber, Plastic & their Products	8,759	1,469	8,759	1,469

Shipping	1,937	423	1,937	423
Sugar	1,401	1,368	1,401	1,368
Telecommunications	16,613	7,073	16,613	7,073
Tourism and Hotels and Restaurants	1,632	401	1,632	521
Transport Operator	3,306	787	5,333	787
Vehicles, Vehicles part and Transport Equipment	37,959	10,461	37,959	10,561
Water Sanitation	22	-	22	-
Wholesale trade	27,385	9,053	27,385	9,053
Wood and Wood Products	687	891	687	891
Retail Advances	116,451	-	125,499	1,631
Others	134,256	19,463	138,696	19,626
Automotive	-	-	5,633	-
Leasing	-	-	500	13
Power	-	-	0	10
Printing	-	-	2	-

ii) Residual contractual maturity breakdown of assets as at Sep 30, 2014.

Maturity Bucket	Rs. in Million			
	Standalone		Consolidated	
	As at Sept 30, 2014		As at Sept 30, 2014	
	Loans and Advances	Investments	Loans and Advances	Investments
Day 1	19,868	169,813	20,617	169,813
2 to 7 days	20,366	129,675	20,378	129,675
8 to 14 days	30,595	13,684	30,623	13,684
15 to 28 days	43,588	39,158	45,851	39,158
29 days to 3 months	85,408	43,363	89,688	45,363
Over 3 months to 6 months	71,450	5,342	80,289	5,342
Over 6 months to 12 months	67,774	11,815	82,295	11,815
Over 1 year to 3 years	175,612	83,992	184,210	83,992
Over 3 years to 5 years	37,205	893	37,440	893
Over 5 years	79,482	48,952	79,483	51,693
Total	631,348	546,686	671,051	551,428

iii) Amount of NPAs (Gross)

Particulars	Rs. in Million	
	Standalone	Consolidated
	As at Sept 30, 2014	As at Sept 30, 2014
Substandard	3,384	3,386
Doubtful 1	1,675	1,675
Doubtful 2	8,434	8,434
Doubtful 3	638	638
Loss	915	915

iv) Net NPAs:

Standalone : Rs.7,039 Millions  
 Consolidate: Rs.7,039 Millions

v) NPA ratios:

	Standalone	Consolidated
Gross NPAs to gross advances	2.35%	2.22%
Net NPAs to net advances	1.11%	1.05%

vi) Movement of NPAs

Particulars	Standalone			Consolidated		
	Gross NPA	Provision	Net NPA	Gross NPA	Provision	NetNPA
Opening Balance as on April 1	14,842	7,829	7,013	14,856	7,836	7,020
Additions net off recoveries & write offs	205	178	26	192	173	19
Closing Balance as on June 30	15,047	8,008	7,039	15,048	8,009	7,039

vii) Non-performing Investments (NPIs): NIL.

viii) Provision for NPIs:

Standalone: Rs. 39 Millions  
 Consolidated: Rs. 339 Millions

ix) Movement of provisions held towards depreciation on investments

Particulars	Standalone	Consolidated
	As at Sept 30, 2014	As at Sept 30, 2014
Opening Balance as on April 1	708	1,248
Additions /Recoveries during the year	-669	-909
Closing Balance as on Sept 30	39	339

**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	Standalone	Consolidated
	As at Sept 30, 2014	As at Sept 30, 2014
Below 100% risk weight	215,958	216,147
100% risk weight	340,503	360,391
More than 100% risk weight	263,051	300,530



## 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	Rs in Million	
		Standalone	Consolidated
Wholesale exposures	Generally includes exposures to Banks, Financial Institutions and Corporates	927	6,839
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

Exposure covered by guarantees:

Category	Nature	Rs in Million	
		Standalone	Consolidated
Wholesale exposures	Generally includes exposures to Banks, Financial Institutions and Corporates	Nil	Nil
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.

## 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	Nature	Rs. in Million			
		Standalone		Consolidated	
		As at Sept 30, 2014		As at Sept 30, 2014	
		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	72,463	6,522	72,897	6,561
Foreign exchange risk	Includes specific and general risk on currencies (including gold)	18,141	1,633	18,144	1,633
Equity risk	Includes specific and general risk on equity instruments	280	25	5,262	474
<b>Total</b>		<b>90,884</b>	<b>8,180</b>	<b>96,303</b>	<b>8,667</b>

### 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.

#### 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, 2014		Rs. in Million
	Earnings	Capital	
INR	632	4,716	
FCY	35	654	
Total	667	5,369	



		(Rs. in million)	
Common Equity Tier 1 capital: instruments and reserves		As on 30th Sept, 2014	REF
1	Directly issued qualifying common share capital plus related stock surplus (share premium)	66,371.33	a
2	Retained earnings	-	
3	Accumulated other comprehensive income (and other reserves)	125,797.23	b1+b2+b3+b4+b5+b6+b7
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies <sup>1</sup> )	-	
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-	
6	<b>Common Equity Tier 1 capital before regulatory adjustments</b>	<b>192,168.56</b>	
Common Equity Tier 1 capital: regulatory adjustments			
7	Prudential valuation adjustments	-	
8	Goodwill (net of related tax liability)	-	
9	Intangibles (net of related tax liability)	3,267.59	c
10	Deferred tax assets	9,000.41	d
11	Cash-flow hedge reserve	-	
12	Shortfall of provisions to expected losses	-	
13	Securitisation gain on sale	-	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	-	
15	Defined-benefit pension fund net assets	482	
16	Investments in own shares (if not already netted off paid-up capital on reported balance sheet)	-	
17	Reciprocal cross-holdings in common equity	-	
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold) <sup>d</sup>	-	
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold) <sup>3</sup>	-	
20	Mortgage servicing rights <sup>4</sup> (amount above 10% threshold)	-	
21	Deferred tax assets arising from temporary differences <sup>5</sup> (amount above 10% threshold, net of related tax liability)	-	
22	Amount exceeding the 15% threshold <sup>6</sup>	-	
23	of which: significant investments in the common stock of financial entities	-	
24	of which: mortgage servicing rights	-	
25	of which: deferred tax assets arising from temporary differences	-	
26	National specific regulatory adjustments <sup>7</sup> (26a+26b+26c+26d)	-	
26a	of which: Investments in the equity capital of the unconsolidated insurance subsidiaries	-	
26b	of which: Investments in the equity capital of unconsolidated non-financial subsidiaries <sup>8</sup>	-	
26c	of which: Shortfall in the equity capital of majority owned financial entities which have not been consolidated with the bank <sup>9</sup>	-	
26d	of which: Unamortised pension funds expenditures	-	
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	
28	<b>Total regulatory adjustments to Common equity Tier 1</b>	<b>12,750.00</b>	
29	<b>Common Equity Tier 1 capital (CET1)</b>	<b>179,418.56</b>	
Additional Tier 1 capital: instruments			
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus (31+32)	-	
31	of which: classified as equity under applicable accounting standards (Perpetual Non-Cumulative Preference Shares)	-	
32	of which: classified as liabilities under applicable accounting standards (Perpetual debt Instruments)	-	
33	Directly issued capital instruments subject to phase out from Additional Tier 1	-	
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	-	
35	of which: instruments issued by subsidiaries subject to phase out	-	
36	<b>Additional Tier 1 capital before regulatory adjustments</b>	<b>-</b>	
Additional Tier 1 capital: regulatory adjustments			
37	Investments in own Additional Tier 1 instruments	-	
38	Reciprocal cross-holdings in Additional Tier 1 instruments	-	
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-	
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions) <sup>10</sup>	-	
41	National specific regulatory adjustments (41a+41b)	-	
41a	Investments in the Additional Tier 1 capital of unconsolidated insurance subsidiaries	-	
41b	Shortfall in the Additional Tier 1 capital of majority owned financial entities which have not been consolidated with the bank	-	
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	
43	<b>Total regulatory adjustments to Additional Tier 1 capital</b>	<b>-</b>	
44	<b>Additional Tier 1 capital (AT1)</b>	<b>-</b>	
44a	<b>Additional Tier 1 capital reckoned for capital adequacy<sup>11</sup></b>	<b>-</b>	
45	<b>Tier 1 capital (T1 = CET1 + AT1) (29 + 44a)</b>	<b>179,418.56</b>	
Tier 2 capital: instruments and provisions			
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	-	
47	Directly issued capital instruments subject to phase out from Tier 2	-	
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-	
49	of which: instruments issued by subsidiaries subject to phase out	-	
50	Provisions	11,193.18	
51	<b>Tier 2 capital before regulatory adjustments</b>	<b>11,193.18</b>	
Tier 2 capital: regulatory adjustments			
52	Investments in own Tier 2 instruments	-	
53	Reciprocal cross-holdings in Tier 2 instruments	-	

**Annex 2 - Step 1**

(Rs. in million)

		Balance sheet as in financial statements	Balance sheet as in financial statements Balance sheet under regulatory scope of consolidation
		As on 30th Sept, 2014	As on 30th Sept, 2014
<b>A</b>	<b>Capital &amp; Liabilities</b>		
i	Paid-up Capital	37,438	66,371
	Reserves & Surplus	156,169	162,877
	Minority Interest	-	-
	<b>Total Capital</b>	<b>193,607</b>	<b>229,249</b>
ii	<b>Deposits</b>	<b>889,590</b>	<b>889,590</b>
	of which: Deposits from banks	11,526	11,526
	of which: Customer deposits	878,064	878,064
	of which: Other deposits (pl. specify)	-	-
iii	<b>Borrowings</b>	<b>214,194</b>	<b>231,355</b>
	of which: From RBI	29,230	29,230
	of which: From banks	10,400	18,043
	of which: From other institutions & agencies	174,564	174,564
	of which: Others (Debentures & Finance Lease obligation)	-	9,518
	of which: Capital instruments	-	-
iv	<b>Other liabilities &amp; provisions</b>	<b>156,692</b>	<b>160,979</b>
	<b>Total</b>	<b>1,454,083</b>	<b>1,511,172</b>
	<b>Assets</b>		
i	Cash and balances with Reserve Bank of India	51,646	51,649
	Balance with banks and money at call and short notice	4,707	8,732
	<b>Total</b>	<b>56,353</b>	<b>60,381</b>
ii	<b>Investments:</b>	<b>546,726</b>	<b>551,467</b>
	of which: Government securities	542,858	542,858
	of which: Other approved securities	-	-
	of which: Shares	124	2,865
	of which: Debentures & Bonds	-	2,001
	of which: Subsidiaries / Joint Ventures / Associates	-	-
	of which: Others (Commercial Papers, Mutual Funds etc.)	3,744	3,744
iii	<b>Loans and advances</b>	<b>631,348</b>	<b>671,261</b>
	of which: Loans and advances to banks	-	281
	of which: Loans and advances to customers	631,348	670,980
iv	<b>Fixed assets</b>	<b>16,399</b>	<b>16,422</b>
v	<b>Other assets</b>	<b>203,258</b>	<b>211,641</b>
	of which: Goodwill and intangible assets	3,246	3,268
	of which: Deferred tax assets	4,838	9,000
vi	Goodwill on consolidation	-	-
vii	Debit balance in Profit & Loss account	-	-
	<b>Total Assets</b>	<b>1,454,083</b>	<b>1,511,172</b>

**Annex 2 - Step 2**

(Rs. in million)

		Balance sheet as in financial statements	Balance sheet as in financial statements under regulatory scope of consolidation	Ref
		As on 30th Sept, 2014	As on 30th Sept, 2014	
<b>A</b>	<b>Capital &amp; Liabilities</b>			
i	Paid-up Capital	37,438.38	66,371.33	
	of which: Amount eligible for CET1	37,438.38	66,371.33	a
	of which: Amount eligible for AT1	0.00	0.00	
	Reserves & Surplus	156,168.57	162,877.42	
	- Statutory Reserves	46,433.42	50,870.80	b1
	- Remittable Surplus retained in Indian books	68,819.31	70,844.84	b2
	- Capital Reserves on Sale of Immovable Property	1,098.07	1,098.07	b3
	- Furniture & Equipment Reserve	28.09	28.09	b4
	- Properties Investment Reserve	619.43	619.43	b5
	- FX Capital Reserve	1,192.50	1,192.50	b6
	- Special Reserve	897.56	1,143.51	b7
	- Other reserves*	37,080.19	37,080.19	b8
	Minority interest	0.00	0.00	
	<b>Total Capital</b>	<b>193,606.95</b>	<b>229,248.75</b>	
ii	<b>Deposits</b>	<b>889,589.95</b>	<b>889,589.95</b>	
	of which: Deposits from banks	11,526.14	11,526.14	
	of which: Customer deposits	878,063.81	878,063.81	
	of which: Other deposits (pl. specify)	0.00	0.00	
iii	<b>Borrowings</b>	<b>214,194.10</b>	<b>231,354.77</b>	
	of which: From RBI	29,230.00	29,230.00	
	of which: From banks	10,400.00	18,042.78	
	of which: From other institutions & agencies	174,564.10	174,564.10	
	of which: Others (pl. specify)	0.00	9,517.90	
	of which: Capital instruments	0.00	0.00	
iv	<b>Other liabilities &amp; provisions</b>	<b>156,692.26</b>	<b>160,978.69</b>	
	of which: DTLs related to goodwill			
	of which: DTLs related to intangible assets			
	<b>Total</b>	<b>1,454,083.26</b>	<b>1,511,172.16</b>	
	<b>Assets</b>			
i	Cash and balances with Reserve Bank of India	51,645.59	51,648.63	
	Balance with banks and money at call and short notice	4,707.03	8,732.39	
	<b>Total</b>	<b>56,352.63</b>	<b>60,381.02</b>	
ii	<b>Investments:</b>	<b>546,725.71</b>	<b>551,467.04</b>	
	of which: Government securities	542,857.58	542,857.58	
	of which: Other approved securities	0.00	0.00	
	of which: Shares	124.24	2,865.11	
	of which: Debentures & Bonds	0.00	2,000.46	
	of which: Subsidiaries / Joint Ventures / Associates	0.00	0.00	
	of which: Others (Commercial Papers, Mutual Funds etc.)	3,743.90	3,743.90	
iii	<b>Loans and advances</b>	<b>631,348.21</b>	<b>671,261.28</b>	
	of which: Loans and advances to banks	0.00	281.48	
	of which: Loans and advances to customers	631,348.21	670,979.80	
iv	<b>Fixed assets</b>	<b>16,398.98</b>	<b>16,421.56</b>	
v	<b>Other assets</b>	<b>203,257.73</b>	<b>211,641.28</b>	
	of which: Goodwill and intangible assets	3,245.57	3,267.59	c
	Out of Which: Goodwill	0.00	0.00	
	of which: Other intangibles (excluding MSRs)	0.00	0.00	
	of which: Deferred tax assets	4,837.81	9,000.41	d
vi	Goodwill on consolidation	0.00	0.00	
vii	Debit balance in Profit & Loss account	0.00	0.00	
	<b>Total Assets</b>	<b>1,454,083.26</b>	<b>1,511,172.18</b>	
		0	0	



Annex 3

(Rs. in million)

Disclosure template for main features of regulatory capital instruments		As on 30 Sept, 2014
1	Issuer	-
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	-
3	Governing law(s) of the instrument	-
<b>Regulatory treatment</b>		-
4	Transitional Basel III rules	-
5	Post-transitional Basel III rules	-
6	Eligible at solo/group/ group & solo	-
7	Instrument type	-
8	Amount recognised in regulatory capital (Rs. in million, as of most recent reporting date)	-
9	Par value of instrument	-
10	Accounting classification	-
11	Original date of issuance	-
12	Perpetual or dated	-
13	Original maturity date	-
14	Issuer call subject to prior supervisory approval	-
15	Optional call date, contingent call dates and redemption amount	-
16	Subsequent call dates, if applicable	-
<b>Coupons / dividends</b>		-
17	Fixed or floating dividend/coupon	-
18	Coupon rate and any related index	-
19	Existence of a dividend stopper	-
20	Fully discretionary, partially discretionary or mandatory	-
21	Existence of step up or other incentive to redeem	-
22	Noncumulative or cumulative	-
23	Convertible or non-convertible	-
24	If convertible, conversion trigger(s)	-
25	If convertible, fully or partially	-
26	If convertible, conversion rate	-
27	If convertible, mandatory or optional conversion	-
28	If convertible, specify instrument type convertible into	-
29	If convertible, specify issuer of instrument it converts into	-
30	Write-down feature	-
31	If write-down, write-down trigger(s)	-
32	If write-down, full or partial	-
33	If write-down, permanent or temporary	-
34	If temporary write-down, description of write-up mechanism	-
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	-
36	Non-compliant transitioned features	-
37	If yes, specify non-compliant features	-

Annex 4

(i) Qualitative Disclosures

A List of group entities considered for consolidation

As on 30th Sept, 2014

Name of the entity / Country of incorporation	Whether the entity is included under accounting scope of consolidation (yes / no)	Explain the method of consolidation	Whether the entity is included under regulatory scope of consolidation (yes / no)	Explain the method of consolidation	Explain the reasons for difference in the method consolidation
Citicorp Finance (India) Limited	No	NA	Yes	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 'Citif').	NA

B List of group entities not considered for consolidation both under the accounting and regulatory scope of consolidation

Name of the entity / country of incorporation	Principle activity of the entity	Total balance sheet equity (as stated in the accounting balance sheet of the legal entity)	% of bank's holding in the total equity	Regulatory treatment of bank's investments in the capital instruments of the entity	Total balance sheet assets (as stated in the accounting balance sheet of the legal entity)
Citicorp Capital Markets Limited	Registered as Stock Broker & Underwriter	1,142.50	0%	NA	1,310
Citicorp Clearing Services India Limited	Professional clearing member of Currency & Equity derivatives segment of National Stock Exchange and currency derivatives segment MCX-SX.	550.00	0%	NA	785
Citigroup Global Markets India Private Limited	Institutional broking, Investment banking, Wealth management & Professional clearing member of Currency & Equity derivatives segment of National Stock Exchange and currency derivatives segment MCX-SX.	2,300.00	0%	NA	37,947.1

(ii) Quantitative Disclosures:

C List of group entities considered for consolidation

Name of the entity / country of incorporation (as indicated in (i)a. above)	Principle activity of the entity	Total balance sheet equity (as stated in the accounting balance sheet of the legal entity)	Total balance sheet assets (as stated in the accounting balance sheet of the legal entity)
Citicorp Finance (India) Limited	NBFC, Insurance distribution	28,933.00	57,089.00

D The aggregate amount of capital deficiencies<sup>17</sup> in all subsidiaries which are not included in the regulatory scope of consolidation i.e. that are deducted:

Name of the subsidiaries / country of incorporation	Principle activity of the entity	Total balance sheet equity (as stated in the accounting balance sheet of the legal entity)	% of bank's holding in the total equity	Capital deficiencies
NA	NA	NA	NA	NA

E The aggregate amounts (e.g. current book value) of the bank's total interests in insurance entities, which are risk-weighted:

Name of the insurance entities / country of incorporation	Principle activity of the entity	Total balance sheet equity (as stated in the accounting balance sheet of the legal entity)	% of bank's holding in the total equity / proportion of voting power	Quantitative impact on regulatory capital of using risk weighting method versus using the full deduction method
NA	NA	NA	NA	NA