Basel III disclosures of the Indian Branches for the period ended 30th September 2014

All amts in Rs.' 000s, unless otherwise stated

1. Scope of application

Qualitative Disclosures

The Bank is subject to the capital adequacy guidelines stipulated by RBI, which are based on the framework of the Basel Committee on Banking Supervision. As per Basel III guidelines, the Bank is required to maintain a minimum Capital to Risk Weighted Assets Ratio (CRAR) of 9% {11.5% including Capital Conservation Buffer (CCB)}, with minimum Common Equity Tier I (CET1) of 5.5% (8% including CCB) as on 31st March 2019. These guidelines on Basel III has been implemented on 1st April 2013 in a phased manner. The minimum capital required to be maintained by the Bank for the year ended 31st March 2014 is 9% with minimum Common Equity Tier 1 (CET1) of 5%..

The risk management framework of Indian operations is integrated with the Bank's strategy and business planning processes at global level. The Bank has comprehensive risk management framework to monitor, evaluate and manage the principal risks assumed in conducting its activities. The risk management function in India is as per directives and framework set out at Head Office level.

As at September 30, 2014, the Bank does not have any investment in subsidiaries/Joint Ventures and Associates, significant minority equity investment in insurance, financial and commercial entities.

2. Capital structure

Qualitative Disclosures

Bank regulatory capital consists of two components – Tier 1 capital and Tier 2 capital. Both components of capital provide support for banking operations and protect depositors. As per Reserve Bank of India (RBI) guidelines, the composition of capital instruments for foreign banks in India would include the following elements:

Tier 1 Capital:

- Interest-free funds received from Head Office
- Statutory reserves kept in Indian books
- Remittable surplus retained in Indian books which is not repatriable so long as the bank functions in India
- Capital Reserves
- Interest-free funds remitted from Head Office for acquisition of property

Tier 2 Capital:

- General provisions and loss reserves:
  Reserves not attributable to the actual diminution in value or identifiable potential loss in any specific asset and are available to meet unexpected losses are included in Tier 2 capital subject to a maximum of 1.25 per cent of the total risk-weighted assets. Such provisions and reserves include General Provisions on Standard Assets', Provisions held for Country Exposures' and Investment Reserve Account'.
- Head Office borrowings in foreign currency raised by foreign banks operating in India classified as subordinated debt subject to a maximum ceiling of 50% of the Tier 1 capital maintained in India.

Quantitative Disclosures

(a) Tier 1 Capital (Rs. '000s)

Amount Received from Head Office	6,754,150
Statutory Reserves	840,044
Remittable Surplus Retained in India for CRAR	532,612

Capital Reserves	1,577
Interest-free funds remitted from Head Office for acquisition of property	345,070
Less : Intangible Assets	(255,290)
Total Tier 1 Capital	**8,218,163**

(b) Tier 2 Capital (Rs. '000s)

General Provisions	185,686
Investment Reserve	91,127
Country Risk Provisions	2,524
Total Tier 2 Capital	**279,337**

(c) Debt Capital Instruments Eligible for inclusion in Upper Tier 2 Capital (Rs. '000s)

Total Amount Outstanding	-
of which amount raised during the current year	-
Amount eligible to be reckoned as capital funds	-

(d) Subordinated Debt Eligible for inclusion in Lower Tier 2 Capital (Rs. '000s)

Total amount outstanding	**3,853,236**
of which amount raised during the current year	3,853,236
Amount eligible to be reckoned as capital funds	3,853,236

(e) Other deduction from capital.
There are no other deductions from capital.

(f) Total Eligible Capital
The total eligible capital is Rs 12,350,736 (thousand).

3. Capital Adequacy

Qualitative Disclosures

The Bank has assessed its capital requirement taking into account the 3 main risks as defined by Pillar 1 of the Basel III norms viz: Credit Risk, Market Risk and Operational Risk. The Credit Risk is computed using the Standardised Approach, the Market Risk is calculated using the Standardised Duration Approach and the Operational Risk is calculated using the Basic Indicator Approach. The risk computation under each of these 3 categories is adequately covered by the Capital of the Bank.

The Bank has assessed its future capital requirement and the same has been documented in the ICAAP (Internal Capital Adequacy Assessment Process) - Pillar 3 requirements of Basel III norms based on the position as of March 31'2014.

The existing level of Capital is adequate to meet the Bank's current and future business requirements and the CRAR ratio of the Bank is significantly higher than that prescribed by the regulators. A summary of the Bank's capital requirement for credit, market and operational risk and the capital adequacy ratio as on 30th September 2014 is presented below:

Quantitative Disclosures

(Rs. '000s)

(a) Capital Requirements for Credit Risk:	
Portfolios subject to Standardised Approach	3,935,319
Securitisation Exposures	-
(b) Capital Requirements for Market Risk: Standardised Duration Approach	
Interest Rate Risk	239,392
Foreign Exchange risk (including Gold)	180,000

Equity Risk	-
(c) Capital Requirements for Operational Risk:	
Basic Indicator Approach	198,745
Total Eligible Capital	12,350,736
Total Risk Weighted Assets	50,593,963
Total Capital Ratio	24.41%
Tier 1 Capital Ratio	16.24%

4. Credit risk: general disclosures

Qualitative Disclosures

Credit Risk has been defined as the risk of financial loss if counterparty defaults on an obligation under a contract. It arises mainly from direct lending, off-balance sheet exposures such as guarantees and from the Bank's investments in debt securities.

Strategy and processes (including credit risk management policy of the Bank)
The credit risk management framework is based upon Societe Generale group policies and revolves around certain key principles

- All transactions and facilities must be authorized in advance.
- All requests for authorizations relating to a specific client or client group are handled by a single operating division.
- All authorizations are given by an independent risk department, and approval rests on a framework based on internal counterparty risk ratings, Loss given default and a risk-adjusted return on capital analysis
- There are internal caps on the total sub-investment grade exposure (defined as internal rating of 6 (six) or below), exposure to sensitive sectors and on the extent of unsecured exposure.
- There are also specific controls on exposures to banks and financial institutions, designed to ensure against excessive risk concentration.

Structure and Organization:
The risk ratings are provided by operating divisions and are validated by the risk officers. The Risk department is independent of the operating divisions. The local Risk department was separated from Credit department in December 2011. Risk ratings are included in all credit proposals and are factored into all credit decisions. These ratings are independently validated by respective Risk Divisions in Head Office or Regional Hubs.

There is a specialized and centralized department for financial institutions which is located in Paris.

Scope and nature of risk reporting and measurement:
The internal rating models measure counterparty risk (expressed as a probability of default by the borrower in one year) and transaction risk (expressed as the amount that will be lost should a borrower default). An in house database stores all credit limits.
The risk on counterparty exposure on market transactions is measured by modeling the future mark to market value of transactions, after taking into effect netting and correlation effects.

Non-performing advances:
Non performing advances are identified by regular appraisals of the portfolio by management or in accordance with RBI guidelines, whichever is earlier. Specific provision is made on a case by case basis, subject to minimum provisioning levels prescribed by RBI. Special attention is paid to early identification of problem exposures. The Bank's approach towards problem exposures is:

- Quick identification and isolation of potential weak /non-performing credits for concentrated attention through inclusion in the watch list. Watch list discussions are attended by Senior Management, Head of Risk and the Relationship Manager.

- Continued and rigorous follow up of these credits with the intention to monitor a possible turnaround or an early exit.
- A structured and sustained pro-active approach complemented by a rigorous follow up procedures.

For recognition of past due and impaired loans and advances, the Bank follows guidelines prescribed by Reserve Bank of India as contained in circular DBOD.No.BP.BC.9/21.04.048/2014-15 dated July 01, 2014 on "Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances" and other circulars/notifications issued by RBI during the course of the year in this regard.

Quantitative Disclosures

a) Total gross credit risk exposure **Rs.' 000s**

	Fund Based (Note 1)	**Non Fund Based (Note 2)**	**Total**
As at 30.09.2014	47,136,127	25,131,596	72,267,723

1. *The above amounts represent exposures before credit risk mitigants.*
2. *Non fund based exposures exclude credit lines which are unconditionally cancellable at the Bank's sole discretion or, effectively provide for automatic cancellation of credit lines due to deterioration of borrower's creditworthiness.*
3. *The credit risk exposures or equivalents in respect of Non fund based exposures are computed as under:*
   - *In case of exposures other than FX and derivatives, credit equivalent is arrived at by multiplying the notional principal amount with the credit conversion factors.*
   - *In case of FX and derivatives, credit equivalents are computed using the current exposure method.*

b) Geographic distribution of exposures **Rs.' 000s**

		As at 30.09.2014	
	Fund Based	Non Fund Based	Total
Overseas	-	-	-
Domestic	47,136,127	25,131,596	72,267,723
Total	**47,136,127**	**25,131,596**	**72,267,723**

c) Industry type distribution of exposures **Rs.' 000s**
As at 30.09.2014

Industry wise	**Funded**	**Non Funded**	**Total**
All Engineering	4,790,934	3,531,069	8,322,003
Banking and Finance	5,248,066	13,945,401	19,193,467
Basic Metal & Metal Products	174,000	0	174,000
Cement and Cement Products	0	10,337	10,337
Chemical and chemicals products	6,029,982	351,727	6,381,710
Food Processing	1,299,448	51,404	1,350,852
Gems and Jewellery	1,214,366	0	1,214,366
Infrastructure	2,000,000	286,077	2,286,077
Other Industries	7,069,708	726,459	7,796,167
Other Residuary Advances	2,330	0	2,330
Paper & Paper products	400,000	0	400,000
Petroleum	117,000	0	117,000
Rubber, Plastic and their Products	300,000	0	300,000
Textiles	630,875	22,180	653,055
Vehicles, Vehicle Parts and Transport Equipments	367,735	5,962	373,698
Total	**29,644,446**	**18,930,617**	**48,575,062**

d) Residual contractual maturity breakdown of assets

Rs.' 000s

As at	**30-Sep-14**
1 day	8,255,465
2-7 days	1,431,537
8-14 days	2,847,015
15-28 days	4,825,628
29 days -3 months	5,413,875
Over 3 months -6 months	3,903,711
Over 6 months -upto 1 year	3,029,808
Over 1 year -upto 3 years	16,596,043
Over 3 years to 5 years	770,214
Over 5 years	450,796
Total	**47,524,092**

e) Amount of NPAs (Gross) – Rs. 4,286

f) Net NPAs- Nil (P.Y. Nil)

g) NPA Ratios
Gross NPAs to gross advances 0.01%
Net NPAs to net advances- 0.00%

h) Movement of NPAs

Rs.' 000s

			2014-15
	Gross NPAs	Provision	Net NPA
Opening balance	4,286	4,286	-
Additions	-	-	-
Reduction (including write backs / write offs)	-	-	-
Closing balance	4,286	4,286	-

i) Non performing investments – Nil

j) Provisions held for non-performing investments – Nil

k) Movement of provisions for depreciation on investments

Rs.' 000s

	30-09-2014
Opening Balance at beginning of the year – 1st April	578
Add: Provisions made during the year	23,013
Less: Write-off/write-back of excess provisions during the year	8,543
Closing Balance at end of Sept 2014	15,048

5. Credit risk: disclosures for portfolios subject to the standardised approach

Qualitative Disclosures

The Bank relies on the ratings given by the following External Credit Rating Agencies (ECRAs) approved by the RBI to calculate its capital requirement under the standardised approach for credit risk

Domestic Credit Rating Agencies for external ratings of Indian Corporates:

1) Credit Analysis and Research Ltd.
2) CRISIL Ltd.
3) FITCH India
4) ICRA Ltd, Brickwork, SME

The Bank has used issue-specific solicited ratings available in the public domain (for both Long Term and Short Term facilities) from the above domestic rating agencies to allocate appropriate risk weighting for both funded as well as non-funded exposures on corporate customers.

The mapping of external credit ratings and risk weights for corporate exposures is provided in the tables below:

Risk weight mapping of long term corporate ratings

Long term ratings	Risk weights
AAA	20%
AA	30%
A	50%
BBB	100%
BB & Below	150%
Unrated	100%

Risk weight mapping of short term corporate ratings

Short Term Ratings				Risk weights
CARE	**CRISIL**	**FITCH**	**ICRA**	
A1+	A1+	A1+	A1+	20%
A1	A1	A1	A1	30%
A2	A2	A2	A2	50%
A3	A3	A3	A3	100%
A4 & D	A4 & D	A4 & D	A4 & D	150%
Unrated	Unrated	Unrated	Unrated	100%

The claims on banks incorporated in India and foreign banks branches in India, excluding investment in equity shares and other instruments eligible for capital status are risk weighted as under:

CRAR %	Scheduled Banks	Other Banks
> 9	20%	100%
6 to < 9	50%	150%
3 to < 6	100%	250%
0 < 3	150%	350%
Negative	625%	625%

International ECRAs for external ratings of Foreign Banks, Foreign Sovereigns, Foreign Public Sector Entities and Non-Resident Corporates:
a) Fitch
b) Moody's
c) Standard & Poor's

The mapping of external credit ratings and risk weights for the above entities are provided in the tables below to the extent applicable.

Risk weight mapping of foreign banks

S&P/ Fitch Ratings	AAA to AA	A	BBB	BB to B	Below B	Unrated
Moody' Ratings	Aaa to Aa	A	Baa	Ba to B	Below B	Unrated
Risk Weight (%)	20	50	50	100	150	50

Amount outstanding under various risk buckets: **Rs.' 000s**

	As at 30.09.2014
Below 100 % risk weight	8,311,348
100 % risk weight	29,147,605
More than 100 % risk weight	1,781,295
Deducted	-
Total	**39,240,248**

6. Credit risk mitigation: disclosures for standardised approaches:
Qualitative Disclosures

Policy for collateral valuation and Management
All corporate and institutional facilities are reviewed (and hence revalued) at least on an annual basis. All deeds of ownership/ titles related to collateral are held in physical custody under the control of executives independent of the business. Unsecured exposures cannot exceed the overall ceiling fixed for such facilities.

The main categories of recognized collateral taken by the Bank conform to the list of eligible financial collateral advised in Section 7.3.5 of RBI's Prudential guidelines on Capital Adequacy and Market discipline and include cash on deposits, marketable equities, and recognized debt securities.

The Bank also extends credit facilities against guarantees from international corporates and banks. For a corporate guarantee to be recognized as a credit risk mitigant, the guarantor must have a rating of A or above from Standard & Poor's, Fitch and / or Moody's.

The Bank is not active in securitization of standard assets in India.

7. Securitisation: disclosure for standardised approach

The Bank has not undertaken any securitization operation during the year.

8. Market risk in trading book
Qualitative Disclosures

Market risk arises out of the fluctuation in the interest rates, foreign exchange rates and the consequent change in the prices of various financial instruments held by the Bank. The financial instruments are revalued on a daily basis as per the guidelines issued by the regulatory authorities. The change in the valuation of the financial instruments may result in profit or loss for the Bank.

The primary objective of Bank's market risk management is the continuous and independent monitoring of positions, market and counterparty risks incurred by the Bank's trading activities, and the comparison of these positions and risks with established limits.

Strategy and Process:
All open market risk is subject to approved limits. The market risk limits are reviewed at periodic intervals. The approved market risk limit is based on capital allocated to trading activity, market environment and the risk perception at Head office.

Structure and organisation of market risk management

The Market Risk Department in Hong Kong is in charge of computation of all the risk parameters. It computes the exposure of the bank on a daily basis by using TRAAB system and sends the report to all concerned. The exposures are not computed separately at the local level. The local Market Risk Manager monitors the limits, based on the report sent by Hong Kong office. The Market Risk function is independent of the front office.

Scope and nature of risk measurement, risk reporting and risk monitoring system:
Market risk is monitored and controlled using parameters, such as , Value at Risk (VaR), Sensitivity limits (parallel shift in interest rates), net open position limit (Foreign exchange positions) and stress test. The bank has set limits on each of these parameters and the utilizations are reported on a daily basis to the senior management.

VaR estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. The Bank calculates VaR using the historical simulation methodology covering the last 250 working days' market data and at 99% confidence level for a one-day holding period.

The sensitivity limit measures the profit/loss arising out of a 10 basis point parallel shift in the interest rates of the respective financial instruments. The stress test is used to study the effect on portfolio of a specific set of changes in risk factors resulting from exceptional, but plausible, events. Three types of test (historical, hypothetical and adverse) allow the Bank to limit exposure to risks coming from exceptional shock.

Capital requirements for market risk: **Rs.' 000s**

Standardised duration approach	**As at 30.09.2014**
Interest rate risk	239,392
Foreign exchange risk	180,000
Equity risk	-
Capital requirements for market risk	419,392

9. Operational risk
Qualitative disclosures

The operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including events of low probability of occurrence, but with a risk of high loss. This definition includes legal risk but excludes strategic and reputation risks

Strategy and Process
The Bank has an Operational risk policy in place which classifies Operational Risk events into 8 major heads and 49 sub heads to map with the Basel II Loss Event Type Classifications, Event Description, Corrective & Preventive Action plan and loss amounts & recoveries. The risk is managed through a system of prevention, control and coverage that comprises detailed procedures, permanent supervision, and insurance policies, further supported by reviews by the internal audit and the Head-office teams.

Structure and Organisation
Implementation of the Operational Risk framework of the bank is done by the Operational Risk Manager under guidance of the Chief Risk Officer. The framework rests on 5 pillars

- Operational Loss Collection.
- Risk & Controls Self Assessment
- Permanent Supervision
- Key Risk Indicators
- Scenario Analysis

The Operational Risk aspects are discussed in two Committee's of the bank namely the Audit & Accounts Committee and the Operational Risk Committee. Both these committees are chaired by the Chief Executive Officer -India and has the local Operational Risk Managers, Business Line Heads, Support function Heads, Compliance, Legal and Audit as members

This committee is responsible to identify and control all risks of legal, administrative and or disciplinary penalties, financial losses or injury to the image arising out of or in connection with failure to comply with the Head Office, Local/Legislative/Regulatory banking provisions/ethics and professional practices as well as SG Group instructions, standards and/or processes.

Scope and nature of Risk reporting / measurement system

The Bank has clearly defined the nature, scope of risk reporting by putting in place systems and thresholds for loss data collection, measurement and reporting by category and sub category of events. The Bank's internal classification has been mapped to the Basel II Loss Event Type Classifications. Based on this classification Risk Drivers (KRIs) that convey any control weakness that could cause an Operational Risk Event are identified and assessed through multiple evaluation questions. The current threshold for reporting of losses is greater than or equal to € 2,500; these will be recorded in the internal risk data base, only risk events above € 10,000 will be reviewed by Group Operational Risk teams and also will be used to calculate capital requirements and in various risk analyses. A reporting on Operational Risk is done on a quarterly basis to the Head office.

The Bank also has a RCSA (Risk Control & Self Assessment) process in place which helps to evaluate the inherent risk in the business and the controls in place to mitigate it. The process covers all business units of the bank.

Hedging / Mitigating techniques

The ORM policy is also designed to alert the operating divisions as soon as possible if they are vulnerable to risks so as to ensure that they react immediately to reduce potential losses and/or the severity of such losses. The gaps / residual risk identified during the above mentioned RSCA exercise are addressed by implementing additional controls to ensure a robust ORM structure.

The Bank has adopted the Basic Indicator approach to compute the capital requirement for operational risk as prescribed by RBI.

10. Interest rate risk in the banking book (IRRBB)

In order to manage the risk optimally, the Interest Rate Risk in the Banking Book (IRRBB) is centralized within the ALM desk in Finance department. The Head Office has assigned sensitivity limits on the IRRBB which also covers the capital and investments held in the HTM category. The risks arising out of various commercial banking activities are transferred to the ALM desk using the internal funds transfer pricing mechanism.

The ALM desk manages and hedges, if required, the IRRBB with Treasury under the guidance of the ALCO. The IRRBB is measured on a Quarterly basis.

Quantitative Disclosures

Market Risk Limits (Amounts in EUR)

30.09.2014

1- Value at Risk : VAR 99%

VAR	Limit	Usage	
Global	2,000,000	-515,500	26%
Trading	2,000,000	-515,500	17%

2 -Interest Rate Sensitivity Limits (expressed in EUR for +10bps)

Parallel	Limit	Usage	
Global	500,000	-334,334	67%

3- Stress Tests

	Limit	Usage	
Stress Test	15,000,000	-13,178,000	88%