

Standard Chartered Bank-India Branches
(Incorporated in the United Kingdom with limited liability)

Auditors' Report on the financial statements of Standard Chartered Bank – India Branches under Section 30 of the Banking Regulation Act, 1949.

The Chief Executive Officer
Standard Chartered Bank – India Branches

We have audited the attached Balance Sheet of Standard Chartered Bank- India branches (“the Bank”) as at 31 March 2008 and the related Profit and Loss Account and the Cash Flow Statement annexed thereto for the year ended on that date. These financial statements are the responsibility of the Bank’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the auditing standard generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Balance Sheet and the Profit and Loss Account have been drawn up in accordance with the provisions of Section 29 of the Banking Regulation Act, 1949 read with sub-regulation (1), (2) and (5) of Section 211 and sub-section (5) of Section 227 of the Companies Act, 1956.

In respect of the matters mentioned in the Schedule 18 (E) (ii) to the financial statements, we are unable to form an opinion on their outcome and consequently their effect, if any, on the results of the Bank for the year.

In our opinion, subject to the effect of such adjustments in respect of matters mentioned in Schedule 18 (E) (ii) if any, that might have become necessary had the outcome of the matter referred to above been known, and to the best of our information and according to the explanations given to us, the said accounts give the information required under the Banking Regulation Act, 1949 and the Companies Act, 1956 in the manner so required for banking companies and give a true and fair view:

- a) In the case of Balance Sheet, of the state of affairs of the Bank as at 31 March 2008;
- b) In the case of Profit and Loss Account, of the profit for the year ended on that date; and
- c) In the case of Cash Flow Statement, of the cash flows for the year ended on that date.

Further, in our opinion, the financial statements dealt with by this report comply with the Accounting Standards, referred to in sub section 3(C) of Section 211 of the Companies Act, 1956, to the extent they are not inconsistent with the accounting policies prescribed by the Reserve Bank of India.

We further report that:

- We have obtained all information and explanations which to the best of our knowledge and belief, were necessary for the purpose of the audit and have found them to be satisfactory;
- The financial accounting systems of the Bank are centralized and therefore, accounting returns for the purpose of preparing financial statements are not required to be submitted by the branches, other than for branches pertaining to the erstwhile American Express Bank Limited – India Branches which were adequate for the purpose of our audit;
- The transactions which have come to our notice have been within the powers of the Bank;
- In our opinion, the Bank has maintained proper books of account as required by the law insofar as appears from our examination of those books;
- The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;
- In our opinion, and to the best of our information and according to the explanation given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required for banking companies and guidelines issued by the Reserve Bank of India from time to time; and
- The requirements of Section 274(1)(g) of the Companies Act, 1956 are not applicable considering the Bank is a branch of Standard Chartered Bank, which is incorporated with limited liability in United Kingdom.

For **BSR & Co.**
Chartered Accountants

Mumbai
20 June 2008

Akeel Master
Partner
Membership No: 046768

Standard Chartered Bank-India Branches
(Incorporated in the United Kingdom with limited liability)

| <i>Balance Sheet as at 31 March 2008</i> | | | <i>Profit and Loss Account for the year ended 31 March 2008</i> | | | | |
|---|---------------------------------------|---------------------------------------|---|---|--|-------------------|-------------------|
| Schedule | As at 31 March 2008 (Rs '000s) | As at 31 March 2007 (Rs '000s) | Schedule | For the year ended 31 March 2008 (Rs '000s) | For the year ended 31 March 2007 (Rs '000s) | | |
| Capital and Liabilities | | | Income | | | | |
| Capital | 1 | 6,757,992 | 5,281,975 | Interest earned | 13 | 48,780,626 | 40,461,772 |
| Reserves and Surplus | 2 | 76,942,382 | 52,726,184 | Other income | 14 | 22,517,196 | 13,473,330 |
| Deposits | 3 | 369,565,223 | 341,746,660 | Total Income | | 71,297,822 | 53,935,102 |
| Borrowings | 4 | 69,977,570 | 63,518,196 | Expenditure | | | |
| Other liabilities and provisions | 5 | 211,209,272 | 125,640,529 | Interest expended | 15 | 21,299,467 | 16,518,869 |
| Total Capital and Liabilities | | 734,452,439 | 588,913,544 | Operating expenses | 16 | 20,505,812 | 14,036,781 |
| | | | | Provisions and contingencies | 17 | 12,430,194 | 9,736,330 |
| Assets | | | | Total Expenditure | | 54,235,473 | 40,291,980 |
| Cash and Balances with Reserve Bank of India | 6 | 46,310,960 | 20,035,416 | Net Profit | | 17,062,349 | 13,643,122 |
| Balances with banks and money at call and short notice | 7 | 10,373,850 | 19,612,868 | Profit available for appropriation | | 17,062,349 | 13,643,122 |
| Investments | 8 | 127,872,577 | 119,022,852 | Appropriations | | | |
| Advances | 9 | 333,515,256 | 301,037,976 | Transfer to Statutory Reserve | 2 | 4,265,587 | 3,410,780 |
| Fixed assets | 10 | 17,232,886 | 8,772,625 | Transfer to Capital Reserve-Surplus on sale of Held To Maturity Investments | 2 | - | 827,120 |
| Other assets | 11 | 199,146,910 | 120,431,807 | Remittable Surplus retained in India for CRAR | 2 | 10,649,075 | 9,405,222 |
| Total Assets | | 734,452,439 | 588,913,544 | Balance carried over to balance sheet | 2 | 2,147,687 | - |
| Contingent liabilities | 12 | 16,256,084,277 | 8,195,325,829 | Total appropriations | | 17,062,349 | 13,643,122 |
| Bills for collection | | 85,307,175 | 56,331,265 | Significant Accounting Policies and Notes to Financial Statements | 18 | | |
| Significant Accounting Policies and Notes to Financial Statements | 18 | | | | | | |

The accompanying schedules form an integral part of the Balance Sheet.

The accompanying schedules form an integral part of the Profit & Loss Account.

As per our report of even date

For BSR & Co.
Chartered Accountants

Sd/-
Akeel Master
Partner
Membership No: 046768

20 June 2008
Mumbai

For Standard Chartered Bank – India Branches

Sd/-
Neeraj Swaroop
Regional Chief Executive – India and South Asia

Sd/-
Anurag Adlakha
Chief Financial Officer – India and South Asia

Standard Chartered Bank-India Branches
(Incorporated in the United Kingdom with limited liability)

Cash Flow Statement for the year ended 31 March 2008

| Particulars | For the year ended 31 March 2008 Rs. (000s) | For the year ended 31 March 2007 Rs. (000s) |
|--|---|---|
| Cash flow from Operating activities | | |
| Profit Before Tax | 28,392,817 | 20,920,322 |
| Adjustments for: | | |
| Depreciation on Bank's property | 351,653 | 287,616 |
| Interest on subordinated debt | 515,940 | 475,525 |
| Provision in respect of non-performing assets (including prudential provision on standard assets) | 1,806,356 | 3,150,102 |
| Appreciation on investments | (706,630) | (665,476) |
| Profit on sale of fixed assets | (18,378) | (36,239) |
| Write off of fixed assets | 82,410 | - |
| | 30,424,168 | 24,131,850 |
| Adjustments for: | | |
| Decrease/(increase) in investments (excluding HTM investments) | 665,135 | (3,949,799) |
| Decrease/(increase) in advances | (29,539,337) | (60,270,697) |
| Decrease/(increase) in other assets | (72,954,205) | (63,619,923) |
| Increase/(decrease) in borrowings | 5,557,111 | (15,649,681) |
| Increase/(decrease) in deposits | 7,634,206 | 57,142,294 |
| Increase/(decrease) in other liabilities and provisions | 69,105,453 | 71,950,835 |
| | 10,892,531 | 9,734,879 |
| Direct taxes paid | (10,572,088) | (8,040,329) |
| Net Cash flow from operating activities (A) | 320,443 | 1,694,550 |
| Cash flow from investing activities | | |
| Purchase of fixed assets | (4,562,113) | (209,102) |
| Proceeds from the sale of fixed assets | 26,324 | 99,063 |
| Decrease/(increase) in HTM Investments | 6,131,958 | (8,090,261) |
| Net Cash flow from/(used in) investing activities (B) | 1,596,169 | (8,200,300) |
| Cash flow from financing activities | | |
| Remittance to Head Office | - | (1,250,487) |
| Sub debt from Head Office | 10,030,000 | - |
| Other movement in reserves | - | (570) |
| Interest on subordinated debt | (475,620) | (475,525) |
| Net cash flow from/(used in) financing activities (C) | 9,554,380 | (1,726,582) |
| Net (decrease)/increase in cash and cash equivalents (A+B+C) | 11,470,992 | (8,232,332) |
| Cash and cash equivalents at the beginning of the year | 39,648,284 | 47,880,616 |
| Add : Addition on amalgamation of AEBL | 5,565,534 | - |
| Cash and cash equivalents at the end of the year | 56,684,810 | 39,648,284 |

Note : Cash and Cash Equivalent represents

| | Schedule | As at 31 March 2008 | As at 31 March 2007 |
|---|----------|---------------------|---------------------|
| Cash and Balance with RBI | 6 | 46,310,960 | 20,035,416 |
| Balance with banks and Money at call and short notice | 7 | 10,373,850 | 19,612,868 |
| Total | | 56,684,810 | 39,648,284 |

As per our report of even date

For B S R & Co.
Chartered Accountants

Sd/-
Akeel Master
Partner
Membership No.046768

20 June 2008
Mumbai

For Standard Chartered Bank - India Branches

Sd/-
Neeraj Swaroop
Regional Chief Executive - India and South Asia

Sd/-
Anurag Adlakha
Chief Financial Officer - India and South Asia

Standard Chartered Bank-India Branches
(Incorporated in the United Kingdom with limited liability)

Schedules to the Financial Statements

| | As at 31 March 2008 (Rs '000s) | As at 31 March 2007 (Rs '000s) | | As at 31 March 2008 (Rs '000s) | As at 31 March 2007 (Rs '000s) |
|--|--------------------------------------|--------------------------------------|---|--------------------------------------|--------------------------------------|
| 1. Capital | | | | | |
| Deposit kept with the RBI under Section 11(2)(b) of the Banking Regulation Act, 1949 | 19,450,000 | 13,350,000 | | | |
| a. Head office reserves | | | | | |
| Balance, beginning of the year | 21,960 | 21,960 | | | |
| Balance, end of the year | 21,960 | 21,960 | | | |
| b. Head Office Capital | | | | | |
| Balance, beginning of the year | 5,260,015 | 5,260,015 | | | |
| Addition on amalgamation of AEBL | 1,476,017 | - | | | |
| Balance, end of the year | 6,736,032 | 5,260,015 | | | |
| Total capital | 6,757,992 | 5,281,975 | | | |
| 2. Reserves and Surplus | | | | | |
| a. Statutory Reserves | | | | | |
| Balance, beginning of the year | 21,196,466 | 17,785,686 | | | |
| Transfer from Profit and Loss Account | 4,265,587 | 3,410,780 | | | |
| Addition on amalgamation of AEBL | 1,262,764 | - | | | |
| Balance, end of the year | 26,724,817 | 21,196,466 | | | |
| b. Property Revaluation Reserve | | | | | |
| Balance, beginning of the year | 8,272,965 | 8,323,378 | | | |
| Addition during the year | 4,058,111 | - | | | |
| Transfer to Capital Reserves-Surplus on sale of immovable properties | - | (49,843) | | | |
| Loss on disposal of property | - | (570) | | | |
| Balance, end of the year | 12,331,076 | 8,272,965 | | | |
| c. Capital Reserves-Surplus on sale of immovable properties | | | | | |
| Balance, beginning of the year | 1,928,588 | 1,878,745 | | | |
| Transfer from Property Revaluation Reserve | - | 49,843 | | | |
| Addition on amalgamation of AEBL | 482,538 | - | | | |
| Balance, end of the year | 2,411,126 | 1,928,588 | | | |
| d. Capital Reserves-Surplus on sale of Held To Maturity investments | | | | | |
| Balance, beginning of the year | 984,772 | 157,652 | | | |
| Addition during the year | - | 827,120 | | | |
| Balance, end of the year | 984,772 | 984,772 | | | |
| e. Capital Reserve | | | | | |
| Balance, beginning of the year | 262,571 | 262,571 | | | |
| Addition on amalgamation of AEBL | 39,816 | - | | | |
| Balance, end of the year | 302,387 | 262,571 | | | |
| f. Remittable Surplus retained in India for Capital to Risk-weighted Assets Ratio (CRAR) | | | | | |
| Balance, beginning of the year | 19,872,670 | 10,414,476 | | | |
| Transfer from Profit and Loss Account - AEBL | 1,162,500 | - | | | |
| Transfer from Profit and Loss Account | 10,649,075 | 9,458,194 | | | |
| Balance, end of the year | 31,684,245 | 19,872,670 | | | |
| | | | g. Profit and Loss Account | | |
| | | | Balance, beginning of the year | - | 1,303,459 |
| | | | Net profit for the year transferred from Profit and Loss Account | 2,147,687 | - |
| | | | Profit and Loss Account Balance of AEBL | 1,310,620 | - |
| | | | Transfer to Remittable Surplus retained in India for Capital to Risk-weighted Assets Ratio (CRAR) | (1,162,500) | - |
| | | | Remitted to Head Office during the year | - | (1,250,487) |
| | | | Remittable Surplus retained in India for CRAR | - | (52,972) |
| | | | Balance, end of the year | 2,295,807 | - |
| | | | h. Exchange reserve | | |
| | | | Balance, beginning of the year | 1,229 | 1,229 |
| | | | Balance, end of the year | 1,229 | 1,229 |
| | | | i. Property Investment Reserve | | |
| | | | Balance, beginning of the year | 206,923 | 206,923 |
| | | | Balance, end of the year | 206,923 | 206,923 |
| | | | Total reserves and surplus | 76,942,382 | 52,726,184 |
| | | | 3. Deposits | | |
| | | | A I Demand deposits | | |
| | | | from banks | 5,456,600 | 4,072,973 |
| | | | from others | 105,050,541 | 86,319,350 |
| | | | Total demand deposits | 110,507,141 | 90,392,323 |
| | | | II Savings bank deposits | 64,874,005 | 55,481,552 |
| | | | III Term deposits | | |
| | | | from banks | 8,914 | - |
| | | | from others | 194,175,163 | 195,872,785 |
| | | | Total term deposits | 194,184,077 | 195,872,785 |
| | | | Total deposits | 369,565,223 | 341,746,660 |
| | | | B Deposits of branches in India | 369,565,223 | 341,746,660 |
| | | | Total deposits | 369,565,223 | 341,746,660 |
| | | | 4 Borrowings | | |
| | | | I Borrowings in India | | |
| | | | (i) Reserve Bank of India | - | - |
| | | | (ii) Other banks | 11,672,066 | 28,536,175 |
| | | | (iii) Other institutions and agencies | 10,128,800 | 15,645,050 |
| | | | II Borrowings outside India | 48,176,704 | 19,336,971 |
| | | | Total borrowings | 69,977,570 | 63,518,196 |
| | | | 5. Other Liabilities and Provisions | | |
| | | | Bills payable | 5,328,551 | 4,283,236 |
| | | | Interest accrued | 3,487,327 | 3,698,305 |
| | | | Subordinated debt | 13,980,000 | 3,950,000 |
| | | | Mark-to-market adjustments on Foreign Exchange and Derivative contracts | 159,788,081 | 88,518,738 |
| | | | Others (including provisions) | 28,625,313 | 25,190,250 |
| | | | Total other liabilities and provisions | 211,209,272 | 125,640,529 |

Standard Chartered Bank-India Branches
(Incorporated in the United Kingdom with limited liability)

Schedules to the Financial Statements

| | As at 31 March 2008 (Rs '000s) | As at 31 March 2007 (Rs '000s) | | As at 31 March 2008 (Rs '000s) | As at 31 March 2007 (Rs '000s) |
|--|--------------------------------------|--------------------------------------|--|--------------------------------------|--------------------------------------|
| 6. Cash and balances with Reserve Bank of India | | | c. Advances in India | | |
| Cash in hand (including foreign currency notes) | 1,672,336 | 804,308 | Priority sector | 94,743,847 | 84,354,002 |
| Balance with Reserve Bank of India in current accounts | 44,638,624 | 19,231,108 | Public sector | 340,221 | 91,486 |
| Total cash and balances with Reserve Bank of India | 46,310,960 | 20,035,416 | Banks | – | – |
| 7. Balances with Banks and money at call and short notice | | | Others | 238,431,188 | 216,592,488 |
| In India | | | Total advances | 333,515,256 | 301,037,976 |
| (i) Balances with banks | | | 10. Fixed assets | | |
| (a) In current accounts | 4,186,562 | 2,177,608 | Premises | | |
| (b) In other deposit accounts | 2,501,500 | 3,628,000 | Balance, beginning of the year | 8,489,081 | 8,531,975 |
| (ii) Money at call and short notice | | | Additions during the year | 3,598,229 | 6,000 |
| (a) with banks | – | – | Revaluation during the year | 4,058,111 | – |
| (b) with other institutions | – | – | Additions on amalgamation of AEBL | 61,855 | – |
| Total (i and ii) | 6,688,062 | 5,805,608 | Deductions during the year (at cost) | (10,507) | (48,894) |
| Outside India | | | (Includes revalued amount of Rs. 12,105,981 (2006-07: Rs. 8,047,870) | 16,196,769 | 8,489,081 |
| (i) In current accounts | 1,438,630 | 520,100 | Less : Depreciation to date (including accumulated depreciation of Rs. 25,448 transferred on amalgamation of AEBL) | (146,253) | (101,026) |
| (ii) In other deposit accounts | – | – | Net book value of Premises | 16,050,516 | 8,388,055 |
| (iii) Money at call and short notice | 2,247,158 | 13,287,160 | Other fixed assets (including furniture and fixtures) | | |
| Total (i,ii and iii) | 3,685,788 | 13,807,260 | Balance, beginning of the year | 1,939,753 | 1,854,101 |
| Total balances with banks and money at call and short notice | 10,373,850 | 19,612,868 | Additions during the year | 529,218 | 215,299 |
| 8. Investments | | | Additions on amalgamation of AEBL | 665,536 | – |
| Investments in India | | | Deductions during the year (at cost) | (534,924) | (129,647) |
| Government securities | 118,511,362 | 100,143,766 | | 2,599,583 | 1,939,753 |
| Other approved securities | – | – | Less: Depreciation to date (including accumulated depreciation of Rs. 419,896 transferred on amalgamation of AEBL) | (1,943,973) | (1,622,066) |
| Shares | 180,358 | 189,675 | Net book value of other fixed assets | 655,610 | 317,687 |
| Debentures and bonds | 3,815,451 | 17,131,782 | Capitalised Software | | |
| Subsidiaries | 100 | 100 | Balance, beginning of year | 52,832 | 49,572 |
| Others (including Certificates of Deposits and Commercial Paper) | 8,117,216 | 5,008,031 | Additions during the year | 48,073 | 3,260 |
| Less: Provision for depreciation in value of investments | (2,751,910) | (3,450,502) | | 100,905 | 52,832 |
| Total investments | 127,872,577 | 119,022,852 | Less: Depreciation to date | (90,394) | (43,797) |
| 9. Advances | | | Net book value of Capitalised Software | 10,511 | 9,035 |
| a. Bills purchased and discounted | 37,286,245 | 26,824,709 | Assets on lease (Motor Vehicles) | | |
| Cash credits, overdrafts and loans repayable on demand | 166,150,234 | 151,827,821 | Balance, beginning of the year | – | 2,660 |
| Term loans | 130,078,777 | 122,385,446 | Deductions during the year (at cost) | – | (2,660) |
| | 333,515,256 | 301,037,976 | | – | – |
| b. Secured by tangible assets (includes advances secured against book debts) | 179,076,382 | 174,704,421 | Less : Depreciation to date | – | – |
| Covered by bank/government guarantees | 5,490,523 | 8,465,428 | Net book value of assets on lease | – | – |
| Unsecured | 148,948,351 | 117,868,127 | Premises Work In Progress | 516,249 | 57,848 |
| | 333,515,256 | 301,037,976 | Total net book value of fixed assets | 17,232,886 | 8,772,625 |

Standard Chartered Bank-India Branches
(Incorporated in the United Kingdom with limited liability)

Schedules to the Financial Statements

| | As at 31 March 2008 (Rs '000s) | As at 31 March 2007 (Rs '000s) | | As at 31 March 2008 (Rs '000s) | As at 31 March 2007 (Rs '000s) |
|--|--|--|---|--|--|
| 11. Other Assets | | | 12. Contingent Liabilities | | |
| Interest accrued | 4,456,998 | 4,251,666 | Claims against the Bank not acknowledged as debts | 2,674,500 | 2,244,451 |
| Tax paid in advance/TDS (net of provision for tax) | 2,555,230 | 2,684,178 | Liability on account of outstanding foreign exchange contracts | 3,949,865,461 | 2,273,959,479 |
| Deferred tax asset (net) [Refer note 18 E(xi)] | 2,210,707 | 1,868,700 | Liability on account of derivative contracts | 12,057,652,780 | 5,717,081,464 |
| Stationery and stamps | 2,278 | 3,140 | Guarantees given on behalf of constituents | | |
| Mark-to-market adjustments on Foreign exchange and Derivative contracts | 161,904,977 | 93,928,774 | – in India | 80,073,186 | 58,769,124 |
| Prepayments and receivables | 4,652,868 | 3,295,837 | – outside India | 42,907,711 | 27,316,195 |
| Loans to staff (non-interest bearing) | 85,676 | 100,663 | Acceptances, endorsements and other obligations | 87,498,092 | 78,720,213 |
| Refundable deposits | 3,644,709 | 2,941,582 | Recourse obligations | 491,628 | 896,776 |
| Others | 19,633,467 | 11,357,267 | Other items for which the Bank is contingently liable | | |
| Total other assets | 199,146,910 | 120,431,807 | – Capital Commitments | 206,184 | 13,407 |
| | | | – Repo Agreements | 34,714,735 | 36,324,720 |
| | | | Total contingent liabilities | 16,256,084,277 | 8,195,325,829 |
| | For the year ended 31 March 2008 (Rs '000s) | For the year ended 31 March 2007 (Rs '000s) | | For the year ended 31 March 2008 (Rs '000s) | For the year ended 31 March 2007 (Rs '000s) |
| 13. Interest Earned | | | 16. Operating Expenses | | |
| Interest on advances/discount on bills | 34,569,947 | 25,954,066 | Payments to and provisions for employees | 7,935,953 | 5,903,446 |
| Income on investments | 12,357,139 | 12,493,322 | Rent, taxes and lighting | 803,485 | 446,488 |
| Interest on balances with Reserve Bank of India and other inter-bank funds | 870,019 | 1,050,810 | Printing and stationery | 420,279 | 352,232 |
| Others | 983,521 | 963,574 | Advertisement and publicity | 2,633,771 | 2,156,959 |
| Total interest earned | 48,780,626 | 40,461,772 | Depreciation on Bank's property | 351,653 | 287,616 |
| 14. Other Income | | | Auditors' fees and expense | 4,045 | 3,284 |
| Commission, exchange and brokerage | 16,363,734 | 10,705,665 | Legal and professional charges | 452,555 | 376,285 |
| Net loss on sale of investments | (1,019,912) | (3,415,224) | Postage, telegrams, telephones, etc. | 640,724 | 481,715 |
| Net profit on sale of premises and other assets | 18,378 | 36,239 | Repairs and maintenance | 973,253 | 775,191 |
| Net profit on exchange transactions | 3,631,521 | 2,534,728 | Insurance | 394,980 | 310,425 |
| Miscellaneous income (including income from derivatives) | 3,523,475 | 3,611,922 | Travelling | 372,359 | 363,727 |
| Total other income | 22,517,196 | 13,473,330 | Business support service charges | 4,422,495 | 1,731,462 |
| 15. Interest Expended | | | Other expenditure | 1,100,260 | 847,951 |
| Interest on deposits | 16,466,591 | 11,219,582 | Total operating expenses | 20,505,812 | 14,036,781 |
| Interest on Reserve Bank of India and inter-bank borrowings | 4,318,066 | 4,822,643 | 17. Provisions and Contingencies | | |
| Others | 514,810 | 476,644 | Specific provisions against advances and claims (net) | 1,638,163 | 1,716,825 |
| Total interest expended | 21,299,467 | 16,518,869 | General provision against Standard Assets (Appreciation)/Depreciation in the value of investments | 168,193 | 1,433,277 |
| | | | Provision on account of tax | (706,630) | (690,972) |
| | | | - Current tax expense | 11,045,684 | 7,933,000 |
| | | | - Fringe benefit tax | 353,269 | 72,088 |
| | | | - Deferred tax credit | (68,485) | (727,888) |
| | | | Total provisions and contingencies | 12,430,194 | 9,736,330 |

Schedules to the Financial Statements for the year ended 31 March 2008

18. Significant Accounting Policies and Notes forming part of financial statements

A) Background

The accompanying financial statements for the year ended 31 March 2008 comprise the accounts of India branches of Standard Chartered Bank ('SCB' or 'the Bank'), which is incorporated with limited liability in the United Kingdom. The Bank's ultimate holding company is Standard Chartered Plc, which is incorporated in the United Kingdom.

Reserve Bank of India has approved vide letter dated 4 March 2008, amalgamation of American Express Bank Limited- India branches ('AEBL') with Standard Chartered Bank – India branches with appointed date being 5 March 2008.

B) Basis of preparation

The financial statements are prepared under the historical cost convention on the accrual basis of accounting, unless otherwise stated, and in accordance with Generally Accepted Accounting Principles ('GAAP'), statutory requirements of the Banking Regulation Act, 1949, circulars and guidelines issued by the Reserve Bank of India ('RBI') from time to time, the Accounting Standards ('AS') prescribed by the Companies (Accounting Standards) Rules, 2006 to the extent applicable and current practices prevailing within the banking industry in India.

The financial statements are presented in Indian Rupees rounded off to the nearest thousand unless otherwise stated.

C) Use of estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses and disclosure of contingent liabilities on the date of the financial statements. Actual results could differ from those estimates. Any revision to accounting estimates is recognised prospectively in current and future periods.

D) Significant Accounting Policies of Standard Chartered Bank-India branches

(i) Investments

Classification and valuation of the Bank's investments is carried out in accordance with RBI Circular DBOD.No.BP. BC.15/21.04.141/2007-08 dated 2 July 2007.

Classification

Investments are classified as 'Held to Maturity' ('HTM'), or 'Held for Trading' ('HFT') or Available for Sale' ('AFS') at the time of its purchase. Investments acquired with the intention of holding up to maturity are classified as HTM. Investments acquired by the Bank with the intention to trade by taking advantage of the short-term price/interest rate movements are classified as HFT. All other investments are classified as AFS.

For disclosure in the financial statements, investments are classified under the six categories as disclosed in Schedule 8 – Investments.

Valuation

Investments classified as HTM are carried at acquisition cost. Any premium on acquisition is amortized over the remaining period till maturity on the basis of a constant yield to maturity. Where in the opinion of management, any diminution has occurred in the value of any HTM security, which is other than temporary, appropriate provisions are made.

Investments classified as AFS are marked to market on a quarterly basis and those classified under HFT are marked to market on a monthly basis. Net depreciation in any classification mentioned in Schedule 8 – Investments is recognised in the Profit and Loss account. Net appreciation in each classification is ignored.

The mark to market value of investments classified as HFT and AFS is determined using Yield to Maturity ('YTM') rate as notified by Fixed Income Money Market and Derivatives Association ('FIMMDA') jointly with Primary Dealers Association of India ('PDAI').

Treasury bills and Commercial paper, being discounted instruments, are valued at carrying cost including the pro rata discount accreted for the holding period.

Brokerage and commission on debt instruments paid at the time of acquisition are charged to the Profit and Loss account.

Transfer between categories

Transfer of investments between categories, if any, is accounted for at the acquisition cost/book value/market value, whichever is lower, as at the date of transfer. Depreciation, if any, on such transfer is fully provided for.

Accounting for repos/reverse repos

Repurchase (repos) and reverse repurchase (reverse repos) transactions are accounted for on outright sale and outright purchase basis respectively in line with RBI guidelines. The difference between the clean price of first leg and the clean price of the second leg is recognised as interest income/expense over the period of the transaction in the Profit and Loss account. Depreciation in the value, in any, compared to the original cost is provided for.

Schedules to the Financial Statements for the year ended 31 March 2008 (Continued)

D) Significant Accounting Policies of Standard Chartered Bank-India branches (Continued)

(ii) Derivative transactions

Derivative financial instruments comprise forward exchange contracts, interest rate swaps, cross currency swaps and options and are undertaken for either trading or hedging purposes.

Trading derivatives and other derivatives not designated as hedges are marked to market and the resultant unrealised gain or loss is recognised in the Profit and Loss account as Other Income.

Hedges are accounted for on accrual basis. In accordance with the practices adopted by the Standard Chartered Group, a derivative instrument is designated as a hedge only if it can be clearly identified with the hedged item or transaction, it involves an external party and is effective. A hedge is regarded as effective if at the inception and throughout its life, the Bank expects and the actual results indicate that changes in fair values or cash flows of the hedged item are offset by the changes in the fair value or cash flows of the hedge and actual results are within a range of 80% to 125%.

(iii) Advances

Classification and provisioning of advances of the Bank are carried out in accordance with the RBI Circular DBOD. No. BP.BC.12/21.04.048/2007-08 dated 2 July 2007.

Classification

Advances are classified into performing and non-performing advances based on management's periodic internal assessment and RBI's prudential norms on classification.

Provisioning

Advances are stated net of specific provisions and interest in suspense. Specific provisions are made based on management's assessment of the degree of impairment of the advances, subject to minimum provisioning norms laid down by the RBI.

The Bank also maintains a general provision at rates and norms prescribed by RBI in accordance with RBI Circular DBOD. No. BP.BC.12/21.04.048/2007-08 dated 2 July 2007 and discloses the same in Schedule 5 - Other liabilities and provisions.

Provisioning for restructured assets is made in accordance with the minimum requirements prescribed by the RBI.

(iv) Securitisation

The Bank securitises corporate and retail advances to Special Purpose Vehicles ('SPV'). Securitised assets are derecognised if they are transferred to the SPV in full compliance with all the conditions of true sale as prescribed in 'Guidelines on Securitisation of Standard Assets' vide circular no. DBOD.No. B.P.BC.60/21.04.048/2005-06 dated February 1, 2006 issued by the RBI. Securitisation transactions that do not meet the criteria for derecognition are accounted for as secured borrowings.

In accordance with the above said circular, the gain arising on securitization is amortized over the life of security issued/to be issued by the SPV. Loss, if any, is recognized immediately in the Profit and Loss account.

In respect of credit enhancements provided or recourse obligations accepted by the Bank, appropriate provisions/disclosures are made at the time of securitisation in accordance with AS 29 - 'Provisions, contingent liabilities and contingent assets'. Excess interest spread receivable in future is not recognized in the books.

(v) Foreign currency transactions and balances

Transactions in foreign currency are recorded at exchange rates prevailing on the date of the transactions. Exchange differences arising on foreign exchange transactions settled during the year are recognised in the Profit and Loss account.

Monetary assets and liabilities denominated in foreign currencies are translated at the balance sheet date at rates of exchange notified by the Foreign Exchange Dealers' Association of India ('FEDAI') and the resultant exchange differences are recognized in the Profit and Loss account.

Foreign currency swaps and forward rate agreements are revalued at exchange rate notified by the FEDAI. The profit or loss on revaluation is recorded in the Profit and Loss account.

Contingent liabilities on account of foreign exchange contracts, guarantees, acceptances, endorsements and other obligations denominated in foreign currencies are disclosed at the closing rates of exchange notified by FEDAI.

(vi) Fixed assets and depreciation

Fixed assets are stated at acquisition cost less accumulated depreciation, with the exception of premises which are revalued periodically and are stated at revalued cost less depreciation.

Depreciation is provided on a straight line basis over the useful life of the asset subject to the minimum rates of depreciation prescribed under Schedule XIV to the Companies Act, 1956. In the case of premises, depreciation is provided on the revalued cost. On disposal of revalued premises, the amount standing to the credit of revaluation reserve is transferred to Capital Reserve.

Schedules to the Financial Statements for the year ended 31 March 2008 (Continued)

D) Significant Accounting Policies of Standard Chartered Bank-India branches (Continued)

(vi) Fixed assets and depreciation (Continued)

Fixed assets individually costing less than Rs. 250,000 are expensed in the year of purchase except where individual assets are purchased and installed as part of the owned and leasehold improvement projects, in which case they are capitalised as improvements to property.

The depreciation rates applied on other fixed assets are as follows:

| Category | Depreciation rate per annum (%) |
|---------------------------|---------------------------------|
| Computers | 33.33 |
| Plant | 20 |
| Furniture and Fixtures | 10 |
| Motor Vehicles | 33.33 |
| Electrical Installations | 20 |
| Improvements to property* | 33.33 |
| Computer Software** | 33.33 |

* *Improvements to owned and leasehold property are depreciated over the remaining useful life/lease period subject to a maximum period of five years.*

** *Acquisition costs and development costs are amortized over the expected useful lives, subject to a maximum period of three years.*

(vii) Accounting for leases

Assets given/taken on lease are accounted as per the provisions of Accounting Standard 19 (AS 19) – Leases, issued by the Institute of Chartered Accountants of India. Lease payments under operating leases are recognized as an expense on a straight line basis over the lease term.

(viii) Income recognition

Interest Income on advances is recognised on accrual basis, except in case of interest on non-performing advances, which is recognized as income on receipt.

Interest income on discounted instruments is recognised over the tenor of the instrument on a constant effective yield basis. Commission on guarantees, letters of credit, fees on loans and credit card fees are recognised at the inception of the transactions.

Realised gains on investments under the HTM category are recognized in the Profit and Loss account and subsequently appropriated to Capital Reserve net of tax expense. Losses are recognized upfront in the Profit and Loss account.

(ix) Provision for reward points on credit cards

The Bank has a policy of awarding reward points for credit card spends by customers. Provision for such reward points is made on the basis of behavioral analysis of utilization trends.

(x) Retirement benefits

The Bank has adopted Accounting Standard 15 (Revised 2005) - Employee Benefits (AS 15) from the period commencing 1 April 2007. As per the requirements of revised AS 15, the Bank has determined the actuarial liability for employee benefits as per the projected unit credit method using an independent actuary. There is no charge on account of opening balances as per the transitional provisions of the Revised AS 15.

a) Provident fund

The Bank contributes to a recognised provident fund which is a defined contribution scheme, for all its eligible employees. The contributions are accounted for on an accrual basis and recognized in the Profit and Loss account.

b) Gratuity

The Bank provides for its gratuity liability which is a defined benefit scheme based on actuarial valuation of the gratuity liability at the balance sheet date carried out by an independent actuary.

c) Superannuation

The Bank contributes to an approved superannuation fund which is a defined contribution scheme for all its eligible employees who have opted for the scheme. The contributions are accounted for on an accrual basis and recognized in the Profit and Loss account.

d) Pension

The Bank provides for its pension liability in respect of award staff, which is a defined benefit scheme, based on actuarial valuation of the pension liability at the balance sheet date carried out by an independent actuary.

Standard Chartered Bank-India Branches
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Schedules to the Financial Statements for the year ended 31 March 2008 (*Continued*)

D) Significant Accounting Policies of Standard Chartered Bank-India branches (*Continued*)

(x) Retirement benefits (*Continued*)

e) Leave encashment

The Bank provides for its leave encashment liability in respect of award staff, based on actuarial valuation of the leave encashment liability at the balance sheet date, carried out by an independent actuary.

(xi) Provisions, contingent liabilities and contingent assets

The Bank creates a provision when there is a present obligation as a result of past events that probably requires an outflow of resources embodying economic benefits and a reliable estimate can be made of the amount of the obligation. A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. When there is a possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources would be required to settle the obligation, the provision is reversed.

Contingent assets are not recognized in the financial statements. However, contingent assets are assessed continually and if it is virtually certain that an economic benefit will arise, the asset and related income are recognized in the period in which the change occurs.

(xii) Taxation

Income tax comprises of the current tax (i.e. amount of tax for the period, determined in accordance with the Income Tax Act, 1961 and the rules framed there under), deferred tax charge or credit reflecting the tax effects of timing differences between accounting income and taxable income for the year and fringe benefit tax.

Current tax expense is recognised on an annual basis under the taxes payable method based on the estimated liability computed after taking credit for allowances and exemption in accordance with the provisions of Income Tax Act, 1961.

The Bank accounts for deferred taxes in accordance with the provisions of Accounting Standard 22 – Accounting for Taxes on Income. The deferred tax charge or credit and the corresponding deferred tax liabilities or assets are recognised using the tax rates that have been enacted or substantially enacted at the balance sheet date.

Deferred tax assets are recognised only to the extent there is reasonable certainty that the assets can be realized in future. In case there is unabsorbed depreciation or carried forward loss under taxation laws, deferred tax assets are recognised only if there is virtual certainty of realization of such assets.

Deferred tax assets are reviewed at each balance sheet date and appropriately adjusted to reflect the amount that is reasonably/virtually certain to be realized.

Provision for fringe benefit tax is made on the basis of applicable FBT on the taxable value of eligible expenses of the Bank as prescribed under the Income Tax Act 1961.

(xiii) Impairment of Assets

Fixed assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net discounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment is recognised by debiting the profit and loss account and is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

E) Notes to accounts

i) Amalgamation of American Express Bank

During the year ended 31 March 2008, an application was made to the Reserve Bank of India ('RBI') for the amalgamation of American Express Bank Ltd, India ('AEBL') with the Bank under Section 44A of the Banking Regulation Act, 1949. The amalgamation was approved by the Reserve Bank of India vide its Order No DBOD. IBD.No/12027/23.13.018/2007-08 dated 4 March 2008 and the scheme of amalgamation ('Scheme') became effective from 5 March 2008 ('Appointed Date').

The Scheme provides that from the Appointed Date, the entire banking business and operations of AEBL through all of its branches in India (including, its branch licenses/authorizations, administrative offices licenses, ATM licenses and other licenses), all of its properties, employees, assets, and liabilities vest and become the property, assets, liabilities and obligations of the Bank.

The amalgamation has been accounted as per the Scheme and accordingly the assets, liabilities and reserves of AEBL have been incorporated in these financial statements at the values at which they appeared in the books of AEBL as at 5 March 2008, the appointed date of amalgamation. All expenses incurred on the amalgamation have been charged to the Profit and Loss account. The assets and liabilities of AEBL as at 5 March 2008 taken over by SCB pursuant to the Scheme is given below:

Standard Chartered Bank-India Branches
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Schedules to the Financial Statements for the year ended 31 March 2008 (Continued)

E) Notes to accounts (Continued)

i) Amalgamation of American Express Bank (Continued)

| Particulars | (Rs. in 000s) |
|--|-------------------|
| Assets | |
| Cash and balances with Reserve Bank of India | 2,779,358 |
| Balances with banks and money at call & short notice | 2,786,176 |
| Investment | 14,940,189 |
| Advances | 4,576,106 |
| Fixed assets | 282,046 |
| Other assets | 1,322,350 |
| Total | 26,686,225 |
| Liabilities | |
| Capital | 1,476,017 |
| Reserves & surplus | 3,095,738 |
| Deposits | 20,184,357 |
| Borrowings | 902,263 |
| Other liabilities | 1,027,850 |
| Total | 26,686,225 |

ii) Claims and Inquiry Proceedings

1. The developments during the current year in respect of various claims on the Bank on account of deficiencies in its assets and claims against it, arising from earlier transactions in the securities markets relating to the period from April 1991 to May 1992 are described below:
 - a. Civil actions against several banks, financial institutions and individuals to recover amounts, some of which have also been investigated by the Central Bureau of Investigation, continue to be pursued.
 - b. One of the cases was concluded on 18 April 2000 when the Supreme Court upheld the Bank's right as a pledgee against certain securities received from a broker in 1992 and also the right to retain dividends and bonus shares received on these securities. Pursuant to the Supreme Court's decision the Bank has recovered a sum of Rs. 143 in the current year which represents sale proceeds, dividends, etc. (2006-2007: Rs.5 (net)) and is reflected in Schedule 14 – Other Income. There are certain shares/securities of zero value with the Bank which are not marketable.
2. With regard to the securities transaction relating to 1991-92, an amount of Rs. 322 million (2006-07: Rs. 322 million) excluding interest has been included in Schedule 12 – Contingent Liabilities (under 'Claims against the Bank not acknowledged as debts').
3. Proceedings in relation to securities transactions, vostro accounts and NRE accounts pertaining to the year 1992 onwards are not yet complete. The outcome of such proceedings is uncertain. No provision has been made in these financial statements to reflect the effect, if any, of the outcome of such proceedings. Given that the cases are pending and the outcome uncertain, it is premature for the Bank to make any provision.

iii) Subordinated Debt

Other liabilities & provisions include an amount of Rs. 13,980 million (2006-07:Rs. 3,950 million) pertaining to subordinated debts, details of which are given below:

| (Rs. in 000s) | | | | |
|-------------------|------------|---|------------------|------------------|
| Date of allotment | Amount | Coupon Rate | Coupon Frequency | Final Maturity |
| October 29, 1999 | 1,950,000 | 12.95% | Annual | October 28, 2009 |
| February 23, 2000 | 2,000,000 | 11.15% | Semi-annual | May 22, 2010 |
| March 3, 2008 | 10,030,000 | 6M USD LIBOR rate + 220 basis points Current rate : 5.1685% | Semi-annual | March 2, 2018 |

Standard Chartered Bank-India Branches
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Schedules to the Financial Statements for the year ended 31 March 2008 (Continued)

E) Notes to accounts (Continued)

(iv) Assets Securitised (including assignments)

| | For the year ended 31 March 2008 | For the year ended 31 March 2007 |
|--|-------------------------------------|-------------------------------------|
| Book value of loans securitized | 43,881,007 | 6,750,866 |
| Total number of loans securitized (nos.) | 2,002 | 1,121 |
| Sale consideration received | 44,037,101 | 6,769,039 |
| Net profit on securitisation* | 156,094 | 18,173 |

* Profit is amortised over the residual maturity of the securities

The credit enhancements given in respect of the above deals amount to Rs. 963 million which comprises of Rs. 64 million by way of cash collateral and Rs. 899 million by way of guarantee. The credit enhancements are reduced from Tier I and Tier II capital for capital adequacy computations.

(v) Taxation

Provision for current tax including wealth tax and fringe benefit tax for the year ended 31 March 2008 is Rs. 11,399 million (2006-07: Rs. 8,005 million).

Tax liabilities (including interest) of the Bank amounting to Rs. 2,321 million (2006-07: Rs. 1,922 million for the assessment years 1991-92 to 2004-05) (included in Schedule 12 – Contingent Liabilities) for the assessment years 1991-92 to 2005-06 including liability on account of alleged failure to withhold tax from franchise charges paid to certain non-residents for the assessment years 1995-96 to 1999-2000, are pending final outcome of the appeals filed by the Bank/Revenue Authorities. The Bank believes that these demands are largely unsustainable and accordingly, no provisions have been made. Payments made against these demands have been included in Schedule 11 - Other Assets.

FBT on Employee stock options that are exercised during the year are provided and paid as per the applicable Income Tax rules. Provision on account of Fringe Benefit tax includes amounts accrued for options vested but not exercised and for options not vested. For the options not vested, provision for FBT is accrued proportionately over the vesting period.

(vi) Specific liability of the erstwhile Standard Chartered Grindlays Bank ('SCGB')

During the year ended 31 March 2003, RBI vide its letter No DBOD.IBS.286/23.13.018/2002-03 dated 17 August 2002 approved the amalgamation of erstwhile SCGB Undertaking with SCB. The 'appointed date' as set out in the Scheme of Amalgamation was 31 August 2002. The Scheme provided that effective from the appointed date the SCGB Undertaking would amalgamate with the Bank as a going concern.

As per clause 1.7 of the Scheme of Amalgamation of the Indian Undertaking of SCGB with that of SCB, approved by the RBI, under Section 44A of the Banking Regulation Act, 1949, certain 'Specified Liabilities' were excluded from the amalgamation. These 'Specified Liabilities' are defined in Schedule A to the said Scheme and comprise the Indian Special Court Exposures and the FERA inquiry/proceedings in this regard. Standard Chartered Plc has written to RBI vide their letter Ref. DBOC IBS 145/23.13.116/2002-03 dated 22 July 2002 stating that SCB will be responsible for all liabilities of SCGB excluded under clause 1.7 of the Scheme, should these liabilities crystallize and in the event that SCGB does not fulfill its obligations in meeting these liabilities either from India or abroad within the required time under due process of law, as and when such liabilities become enforceable. An amount of Rs. 67 million was ordered as penalty in the adjudication proceedings in respect of FERA inquiry/\ proceedings conducted by Enforcement Directorate and the same was deposited between May-July 2007. These orders have been challenged before Appellate Tribunal.

(vii) Statutory Disclosures

a. Capital Adequacy

| | As at 31 March 2008 | As at 31 March 2007 |
|---|---------------------|---------------------|
| Tier I Capital | 66,846,635 | 47,068,141 |
| Tier II Capital | 19,382,577 | 7,956,327 |
| Total Capital | 86,229,212 | 55,024,468 |
| Total Risk weighted assets and contingents | 814,228,162 | 526,891,666 |
| Capital Ratios | | |
| Tier I Capital | 8.21% | 8.93% |
| Tier II Capital | 2.38% | 1.51% |
| Total Capital | 10.59% | 10.44% |
| Amount of subordinated debt as Tier II capital | 13,980,000 | 3,950,000 |

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Schedules to the Financial Statements for the year ended 31 March 2008 (Continued)

E) Notes to accounts (Continued)

(vii) Statutory Disclosures (Continued)

The current year's capital adequacy has been calculated based on the Guidelines on the implementation of the 'New Capital Adequacy Framework' (Basel II), issued vide circular DBOD.No.BP.BC.90/ 20.06.001/ 2006-07 dated 27 April 2007

b. Key Ratios

| Sr. No. | Year ended 31 March 2008 | Year ended 31 March 2007 |
|---|-----------------------------|-----------------------------|
| i. Interest income as a % to Working Funds | 8.95% | 9.07% |
| ii. Non-interest income as a % to Working Funds | 4.13% | 3.02% |
| iii. Operating profit as a % to Working Funds | 5.41% | 5.25% |
| iv. Return on assets | 3.13% | 3.06% |
| v. Business (deposits + advances) per employee (Rs.000) | 82,666 | 92,420 |
| vi. Profit per employee (Rs. in 000s) | 2,022 | 1,962 |

Note 1: Items i, ii, iii and iv above are computed based on average of total assets as per Form X submitted to RBI.

Note 2: Item v above has been computed based on deposits plus advances (excluding interbank deposits) outstanding as at the year end.

c. Maturity Patterns of Assets and Liabilities (Figures in brackets relates to previous year) (Rs. in 000s)

| Maturity Bucket | Loans and Advances | Investments | Foreign Currency Assets | Foreign Currency Liabilities | Deposits | Borrowings |
|--------------------------|--|--|---|--|--|--|
| 1-14 days | 37,591,032 (38,464,240) | 37,307,806 (961,306) | 21,339,438 (23,093,228) | 33,806,215 (30,199,885) | 92,625,086 (84,601,847) | 22,969,605 (24,691,276) |
| 15-28 days | 24,286,245 (27,549,822) | 11,191,452 (6,856,078) | 7,088,796 (16,463,485) | 11,905,310 (10,237,803) | 41,655,026 (24,554,597) | 12,110,148 (1,481,415) |
| 29 days – 3 months | 64,556,711 (57,587,915) | 28,694,325 (10,935,936) | 24,900,151 (22,692,882) | 29,398,823 (18,632,540) | 68,437,632 (56,825,863) | 28,991,257 (14,617,849) |
| Over 3 months – 6 months | 22,883,710 (9,148,000) | 7,122,099 (1,779,760) | 12,862,823 (3,384,389) | 12,584,142 (13,407,232) | 25,553,726 (40,385,915) | 5,505,360 (9,510,827) |
| Over 6 months – 1 year | 20,005,746 (9,837,663) | 5,115,403 (13,577,126) | 9,042,287 (4,649,781) | 14,979,493 (23,057,504) | 18,095,242 (27,089,050) | 401,200 (8,216,780) |
| Over 1 year – 3 years | 95,038,059 (78,988,944) | 34,968,623 (57,877,852) | 22,860,623 (8,799,760) | 23,033,928 (8,506,827) | 121,815,145 (106,557,188) | - (5,000,049) |
| Over 3 years – 5 years | 20,352,756 (23,877,478) | 309,100 (18,066,222) | 11,393,763 (3,544,335) | 9,016,187 (2,609,333) | 1,232,721 (1,567,044) | - - |
| Over 5 years | 48,800,997 (55,583,914) | 2,568,630 (8,968,572) | 3,576,688 (1,965,003) | 12,626,088 (1,014,157) | 150,645 (165,156) | - - |
| Total | 333,515,256 (301,037,976) | 127,277,438 (119,022,852) | 113,064,569 (84,592,863) | 147,350,186 (107,665,281) | 369,565,223 (341,746,660) | 69,977,570 (63,518,196) |

Note: Non term assets and liabilities have been bucketed based on behavioral maturities in line with the RBI guidelines. The Maturity Pattern has been compiled in the same manner as required for the DSB Returns and disclosed as per the format prescribed by the Master Circular DBOD.BP.BC No.14/21.04.018/2007-08 on Disclosure on Financial Statements – Notes to Accounts dated 2 July 2007.

d. Movement in Non Performing Assets ('NPA') and related provisions:

The percentage of net NPA to net advances was 1.04 % as at 31 March 2008 (2006-2007: 1.43%).

| | 31 March 2008 | 31 March 2007 |
|---------------------------------|------------------|------------------|
| Movement of Gross NPA | | |
| Balance, beginning of the year | 7,994,828 | 6,838,098 |
| Additions during the year | 3,330,362 | 4,363,639 |
| Reductions during the year | (4,093,816) | (3,206,909) |
| Balance, end of the year | 7,231,374 | 7,994,828 |

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Schedules to the Financial Statements for the year ended 31 March 2008 (Continued)

E) Notes to accounts (Continued)

(vii) Statutory Disclosures (Continued)

d. Movement in Non Performing Assets ('NPA') and related provisions (Continued)

(Rs. in 000s)

| Movement of Net NPA | 31 March 2008 | 31 March 2007 |
|---------------------------------|------------------|------------------|
| Balance, beginning of the year | 4,319,033 | 3,789,502 |
| Additions during the year | 504,700 | 2,242,797 |
| Reductions during the year | (1,369,980) | (1,713,266) |
| Balance, end of the year | 3,453,753 | 4,319,033 |

(Rs. in 000s)

| Movement in Provision for NPA (excluding provisions on standard assets) | 31 March 2008 | 31 March 2007 |
|--|------------------|------------------|
| Balance, beginning of the year | 2,395,909 | 1,900,199 |
| Add: Provisions made during the year | 2,191,994 | 1,576,590 |
| Less: Utilisation/write back of provisions no longer required | (1,909,479) | (1,080,880) |
| Balance, end of the year | 2,678,424 | 2,395,909 |

(Rs. in 000s)

| | 31 March 2008 | 31 March 2007 |
|------------------------------------|---------------|---------------|
| Provisions towards Standard Assets | 2,613,593 | 2,381,923 |

Borrower-wise provisioning as required by the RBI Circular DBOD. No. BP/BC.12/21.04.048/2007-08 dated 2 July 2007 is being done with a bi-monthly time lag, as informed to the RBI.

Other liabilities include Rs 204 million of provisions against standard assets taken over from the erstwhile AEBL including Rs 61 million of general provision on standard advances created in accordance with RBI requirements.

e. Details of non performing financial assets purchased

(Rs. in 000)

| Particulars | For the year ended 31 March 2008 | For the year ended 31 March 2007 |
|---|-------------------------------------|-------------------------------------|
| 1 (a) Number of accounts purchased during the year | 1 | 1 |
| (b) Aggregate outstanding | 91,300* | 254,000* |
| 2 (a) Of these, number of accounts restructured during the year | – | – |
| (b) Aggregate exposure | – | – |

*This amount represents outstanding receivable and not the consideration paid by the Bank. Relevant reports, as applicable, have been furnished to RBI and CIBIL.

f. Details of sale of financial assets to Securitisation/Reconstruction Company for Asset Reconstruction

(Rs. in 000)

| Particulars | For the year ended 31 March 2008 | For the year ended 31 March 2007 |
|---|-------------------------------------|-------------------------------------|
| i) No of accounts | 1 | – |
| ii) Aggregate Value (net of provisions) of accounts sold to SC/RC | 20,000* | – |
| iii) Aggregate Consideration | 32,500 | – |
| iv) Additional Consideration realised in respect of accounts transferred in earlier years | – | – |
| v) Aggregate gain/loss over net book value | 12,500 | – |

*Net book value on date of sale.

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Schedules to the Financial Statements for the year ended 31 March 2008 (Continued)

E) Notes to accounts (Continued)

(vii) Statutory Disclosures (Continued)

g. Details of sale of non performing financial assets

(Rs. in 000s)

| Particulars | For the year ended 31 March 2008 | For the year ended 31 March 2007 |
|---|-------------------------------------|-------------------------------------|
| (a) Number of accounts sold during the year | 4 | – |
| (b) Aggregate outstanding | 35,359* | – |
| (c) Aggregate consideration received | 116,700 | – |

*Net book value on date of sale.

The above disclosure does not include assets sold to reconstruction companies.

h. Loans subject to Restructuring

In accordance with the RBI Circular No. DBOD No. BP.BC No. 14/21.04.048/2007-08 dated 2 July 2007 and DBOD No.BP. BC.14/21.04.018/2007-08 dated 2 July 2007 on the disclosure in the financial statements, the total loan assets subject to restructuring are as below:

(Rs. in 000s)

| Particulars | For the year ended 31 March 2008 | For the year ended 31 March 2007 |
|---|-------------------------------------|-------------------------------------|
| (i) Total amount of loans assets subject to restructuring, rescheduling, renegotiation | 644,302 | 392,740 |
| (ii) Total amount of Standard assets subject to restructuring, rescheduling, renegotiation | – | 340 |
| (iii) Total amount of Sub Standard assets subject to restructuring, rescheduling, renegotiation | – | 392,400 |
| (iv) Total amount of Doubtful assets subject to restructuring, rescheduling, renegotiation | 644,302 | – |

Note: [(i) = (ii)+(iii)+(iv)]

The amounts mentioned above are outstanding receivables at the time of restructuring.

No loan assets were restructured under Corporate Debt Restructuring ('CDR') during the current year (2006-07: Nil).

i. Lending to Sensitive Sector

(Rs. in '000s)

Exposure to Real Estate Sector

| Category | For the year ended 31 March 2008 | For the year ended 31 March 2007 |
|---|-------------------------------------|-------------------------------------|
| Direct exposure | | |
| (i) Residential Mortgages | | |
| Lending fully secured by mortgages on residential property that is or will be occupied by the borrower or that is rented: | 64,659,823 | 64,173,197 |
| Of which individual housing loans upto Rs 20 lakhs | 27,744,077 | 19,723,014* |
| (ii) Commercial Real Estate | | |
| Lending secured by mortgages on commercial real estates | 29,457,791 | 29,826,797 |
| Indirect Exposure | | |
| Fund based and non-fund based exposures on National Housing Bank (NHB) and Housing Finance Companies (HFCs) | 350,000 | 4,088,250 |
| Total Exposure to Real Estate | 94,467,614 | 98,088,244 |

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Schedules to the Financial Statements for the year ended 31 March 2008 (Continued)

E) Notes to accounts (Continued)

(vii) Statutory Disclosures (Continued)

i. Lending to Sensitive Sector (Continued)

**** Exposure to Capital Markets**

| | | |
|--|-------------------|-------------------|
| 1. Direct investment in equity shares, convertible bonds, convertible debentures and units of equity-oriented mutual funds the corpus of which is not exclusively invested in corporate debt; | 50,358 | 189,802 |
| 2. Advances against shares/bonds/ debentures or other securities or on clean basis to individuals for investment in shares (including IPOs/ESOPs), convertible bonds, convertible debentures, and units of equity-oriented mutual funds; | 90,055 | – |
| 3. Advances for any other purposes where shares or convertible bonds or convertible debentures or units of equity oriented mutual funds are taken as primary security; | 4,645,261 | 2,107,270 |
| 4. Secured and unsecured advances to stockbrokers and guarantees issued on behalf of stockbrokers and market makers; | 8,708,539 | 8,482,465 |
| 5. Bridge loans to companies against expected equity flows/issues; | 380,000 | – |
| Total Exposure to Capital Market | 13,874,213 | 10,779,537 |

* Previous year's disclosure is for Individual housing loans up to Rs 15 lakhs which has been revised to Rs 20 lakhs based on communication received from the RBI on 24 August 2007

** The disclosure for the current year on Exposure to Capital Markets is as per RBI circular DBOD No. Dir. BC. 11/13.03.00/2007-08 dated 2 July 2007.

j. Investments

| | (Rs. in '000s) | |
|----------------------------------|----------------|---------------|
| | 31 March 2008 | 31 March 2007 |
| Value of Investments | | |
| (i) Gross Value of Investments | 130,624,487 | 122,473,354 |
| (a) In India | 130,624,487 | 122,473,354 |
| (b) Outside India | – | – |
| (ii) Provisions for Depreciation | 2,751,910 | 3,450,502 |
| (a) In India | 2,751,910 | 3,450,502 |
| (b) Outside India | – | – |
| (iii) Net Value of Investments | 127,872,577 | 119,022,852 |
| (a) In India | 127,872,577 | 119,022,852 |
| (b) Outside India | – | – |

k. Movement in Provision held towards Depreciation on Investments

| | (Rs. in '000s) | |
|--|------------------|------------------|
| | 31 March 2008 | 31 March 2007 |
| Balance, beginning of the year | 3,450,502 | 4,115,978 |
| Add: Provisions made during the year | 1,216,140 | 501,458 |
| Less: Write-off against provisions during the year | – | (3,420) |
| Less: Write back of provisions during the year | (1,914,732) | (1,163,514) |
| Balance, end of the year | 2,751,910 | 3,450,502 |

l. Repurchase and Reverse repurchase transactions (including LAF)

| | (Rs. in 000s) | | | |
|--|--|---|---|---------------------------------------|
| | Minimum outstanding during the year* | Maximum outstanding during the year | Daily average outstanding during the year | Outstanding as at 31 March 2008 |
| Securities sold under repos | 1,001,011 | 44,291,531 | 21,018,481 | 34,700,000 |
| Securities purchased under reverse repos | 830,000 | 830,000 | 4,536 | – |

* Minimum outstanding during the year excludes the days with nil outstanding.

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Schedules to the Financial Statements for the year ended 31 March 2008 (Continued)

E) Notes to accounts (Continued)

(vii) Statutory Disclosures (Continued)

m. Issuer Composition of Non SLR Investments as at 31 March 2008

(Rs. in 000s)

| Issuer | Total Amount | Extent of Private Placement | Extent of 'Below Investment Grade' Securities | Unrated securities | Unlisted securities |
|-----------------------------|-------------------|-----------------------------|---|--------------------|---------------------|
| PSU | 3,434,238 | – | – | – | 3,434,238 |
| Financial Institutions | 8,117,216 | 8,117,216 | – | 8,117,216 | 8,117,216 |
| Banks | – | – | – | – | – |
| Private Corporates | 561,552 | 561,552 | 37,273 | 561,552 | 561,552 |
| Subsidiaries/Joint Ventures | 100 | 100 | – | 100 | 100 |
| Others | 19 | 19 | 19 | 19 | 19 |
| Provisions | (179,482) | (60,199) | (37,292) | (60,199) | (179,482) |
| Total | 11,933,643 | 8,618,688 | – | 8,618,688 | 11,933,643 |

n. Movement in Non Performing Non-SLR Investments

(Rs. in '000s)

| | As at 31 March 2008 | As at 31 March 2007 |
|---|---------------------|---------------------|
| Balance, beginning of the year | 27,371 | 20,909 |
| Additions during the year | 11,701 | 26,096 |
| Reductions during the year | (1,780) | (19,634) |
| Balance, end of the year | 37,292 | 27,371 |
| Total Provisions held at end of the year | 37,292 | 27,371 |

o. Risk Exposure in Derivatives

(1) Qualitative Disclosure

Risk Management in derivative trading

The Bank enters into derivative contracts in the normal course of business to meet customer requirements and to manage its own exposures to fluctuations in price, interest and exchange rates.

The derivatives are primarily subject to market risk, credit risk, interest rate and foreign exchange risk.

The Bank uses Value at Risk (VaR) to measure and monitor all market risk related activities. VaR models are back tested against actual results to ensure that pre-determined levels of accuracy are maintained. Additional limits are placed specific to instruments and currency concentrations where appropriate. In addition to VaR, other sensitivity measures like PV01 and stress testing are applied as risk management tools. Option risks are controlled through revaluation limits on currency and volatility shifts, limits on volatility risk by currency pair and other underlying variables that determine the options value.

Appropriate internal limits and policies in this regard are set by the Bank's Group Risk Committee and Group Market Risk Committee and exposures against these limits are monitored on a daily basis by an independent department at country level as well as at Head office level.

Policies for hedging

Derivatives used for hedging are initiated by Asset Liability Management ('ALM') desk and trades are effected through the trading desk as a face to the market. The interest rate risk in the fixed rate asset book (including mortgages) is hedged principally through interest rate swaps. The foreign currency liabilities are swapped into rupees using forward exchange contracts.

Provisioning, collateral and credit risk mitigation

Counterparties are reviewed by credit officers who set their credit limits. The Bank does a credit analysis which includes a review of facility detail, credit grade determination and financial spreading/ratio analysis. The Bank uses a numerical grading system, for quantifying the risk associated with counterparty.

The Bank applies the Current Exposure methodology to manage credit risk associated with derivative transactions. This is calculated by taking the cost of replacing the contract, where its mark-to-market value is positive together with an estimate of the potential future change in the market value of the contract, reflecting the volatilities that affect it. The credit risk on contracts with a negative mark-to-market value is restricted to the potential future change in their market value.

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Schedules to the Financial Statements for the year ended 31 March 2008 (Continued)

E) Notes to accounts (Continued)

(vii) Statutory Disclosures (Continued)

o. Risk Exposure in Derivatives (Continued)

In case of certain clients, transactions are done on the back of margins from clients.

Provisioning on the exposure taken on derivative contracts is made as per Bank's internal guidelines and assessment subject to minimum RBI norms.

2) Quantitative Disclosures

| | | (Rs. in crores) | |
|---------|--|--|---|
| Sr. No. | Particulars | Currency Derivatives as at 31 March 2008 | Interest rate derivatives as at 31 March 2008 |
| 1 | Derivatives (Notional Principal Amount) | | |
| | a) For hedging | - | - |
| | b) For trading | 568,770 | 1,031,982 |
| 2 | Marked to Market Positions | | |
| | a) Asset (+) | 8,415 | 7,776 |
| | b) Liability (-) | (7,820) | (8,159) |
| 3 | Credit Exposure | 17,442 | 10,242 |
| 4 | Likely impact of one percentage change in interest rate (100*PV01) | | |
| | a) on hedging derivatives | - | - |
| | b) on trading derivatives | 80.31 | 31.71 |
| 5 | Maximum of 100*PV01 observed during the year | | |
| | a) on hedging | - | - |
| | b) on trading | 87.54 | 181.74 |
| 6 | Minimum of 100*PV01 observed during the year | | |
| | a) on hedging | - | - |
| | b) on trading | 0.03 | 6.92 |

p. Interest Rate Swaps, Interest Rate Options and Forward Rate Agreements

The notional principal amount of Interest Rate Swaps ('IRS'), Interest Rate Options ('IRO') and Forward Rate Agreements ('FRA') are:

| | | | (Rs. in '000s) | |
|-----|--|-----------------------|----------------------|--|
| | | As at 31 March 2008 | As at 31 March 2007 | |
| IRS | | 10,239,461,944 | 4,440,842,808 | |
| IRO | | 80,095,184 | 123,566,398 | |
| FRA | | 262,356 | 239,509 | |
| | | 10,319,819,484 | 4,564,648,715 | |

The credit risk is the pre-settlement risk which is estimated in accordance with the Bank's Loan Equivalent Risk approach. All IRS, IRO and FRA are monitored for price risks under the Value at Risk approach.

The Bank has not taken any collateral from counter parties of IRS, IRO and FRA.

The gross positive mark to market on the IRS, IRO and FRA, which is the potential loss that the Bank would incur in case the counter parties fail to fulfill their obligations are:

| | | | (Rs. in 000s) | |
|-----|--|---------------------|---------------------|--|
| | | As at 31 March 2008 | As at 31 March 2007 | |
| IRS | | 71,788,225 | 48,408,590 | |
| IRO | | 369,120 | 652,070 | |
| FRA | | - | 31 | |
| | | 72,157,345 | 49,060,691 | |

In computing the amount of potential loss, IRS, IRO and FRA where the counter party is a Standard Chartered Group entity have not been considered.

Schedules to the Financial Statements for the year ended 31 March 2008 (Continued)

E) Notes to accounts (Continued)

(vii) Statutory Disclosures (Continued)

p. Interest Rate Swaps, Interest Rate Options and Forward Rate Agreements (Continued)

As at 31 March 2008, the exposure on IRS contracts, IRO and FRA is spread over various industries. However, based on the notional principal amount, the maximum single industry exposure lies with banks at 96 % (2006-2007: 93%).

The fair value as at 31 March 2008 on these contracts/agreements is as follows:

| | As at 31 March 2008 | As at 31 March 2007 |
|-----|---------------------|---------------------|
| IRS | (3,823,840) | 1,674,857 |
| IRO | (1,676) | (50,302) |
| FRA | 722 | (198) |
| | (3,824,794) | 1,624,357 |

(Rs. in 000s)

Note : figures in bracket denote negative MTM.

q. Prudential Credit Exposure Limits – Single and Group Borrower Exposure

The RBI has prescribed credit exposure limits for banks in respect of their lending to single/group borrowers. The exposure limits prescribed are 15% of the capital funds of banks in case of single borrowers and 40% of the capital funds of banks in case of group borrowers. In case of infrastructure projects an additional exposure of upto 5% of capital funds is permitted.

The Bank's exposure to single and group borrowers are within specified limits except in 3 cases where single borrower limits have been exceeded. The Bank has obtained prior approvals from its Management Committee ('MANCO') for these limit excesses.

r. Provisions and contingencies

As per AS 29 – 'Provisions, Contingent Liabilities and Contingent Assets', given below are the movements in provision for credit card reward points and provisions for delinquencies on securitised assets alongwith a brief description of the nature of contingent liabilities recognised by the Bank.

(1) Movement in provision for credit card reward points

| | As at 31 March 2008 | As at 31 March 2007 |
|---|---------------------|---------------------|
| Opening provision | 102,593 | 57,809 |
| Provision made during the year | 57,877 | 75,831 |
| Utilisation/write back of provision during the year | (42,367) | (31,047) |
| Closing provision | 118,103 | 102,593 |

(Rs. in 000s)

Basis for calculation of closing provision on reward points is explained in Note 18 (D) (ix). The provision is utilised when actual claim for redemption is made by card holders.

(2) Movement in provision for delinquency on securitised assets

| | As at 31 March 2008 | As at 31 March 2007 |
|---|---------------------|---------------------|
| Opening provision | 91,675 | 123,103 |
| Provision made during the year | - | 421 |
| Utilisation/write back of provision during the year | (41,040) | (31,849) |
| Closing provision | 50,635 | 91,675 |

(Rs. in 000s)

Provisions are made based on expected losses/cash collateral utilized and will be utilised/written back on completion of tenor of the deals.

(3) Description of Contingent Liabilities

(i) Claims against the Bank not acknowledged as debts:

These represent claims filed against the Bank relating to various legal and tax proceedings that are currently ongoing.

(ii) Liability on account of outstanding foreign exchange contracts:

The Bank enters into foreign exchange contracts with inter-bank participants on its own account and for customers. Forward exchange contracts are commitments to buy or sell foreign currency at a future date at the contracted rate.

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Schedules to the Financial Statements for the year ended 31 March 2008 (Continued)

E) Notes to accounts (Continued)

(vii) Statutory Disclosures (Continued)

r. Provisions and contingencies (Continued)

(iii) Liability on account of derivative contracts:

These include notional principal on outstanding currency swaps, currency options, interest rate swaps, interest rate options and forward rate agreements.

(iv) Guarantees given on behalf of constituents, acceptances, endorsements and others:

As part of its commercial banking activities, the Bank issues documentary credit and guarantees on behalf of its customers. Documentary credits such as letters of credit enhance the credit standing of the customers of the Bank. Guarantees generally represent irrevocable assurances that the Bank will make payments in the event of the customer failing to fulfill its financial or performance obligations.

(v) Recourse obligations:

These represent credit enhancements in the form of cash collaterals in respect of securitised loans and obligations undertaken on sell down of certain assets.

(vi) Other items for which the Bank is contingently liable includes capital commitments and repos outstanding at the end of the year.

s. Retirement Benefits

Reconciliation of opening and closing balance of the present value of the defined benefit obligation for retirement benefits is given below:

| Particulars | (Rs. in 000s) For the year ended 31 March 2008 |
|---|---|
| Changes in Present Value of Defined Benefit Obligations | |
| Opening Balance as at 1 April 2007 | 797,551 |
| Current Service cost | 27,115 |
| Interest cost | 63,209 |
| Actuarial (gains)/losses | 97,195 |
| Benefits paid | (70,892) |
| Closing Balance as at 31 March 2008 | 914,178 |
| Present Value of defined benefit obligations of employees of erstwhile American Express Bank Ltd. as on 31 March 2008 (Refer Note 1) | 222,588 |
| Changes in Fair Value of Plan Assets | |
| Opening Balance as at 1 April 2007 | 350,495 |
| Expected return on plan assets | 28,937 |
| Contributions paid by the Bank | (18,228) |
| Benefits paid | (70,892) |
| Actuarial gains/(losses) | 2,518 |
| Closing Balance as at 31 March 2008 | 292,830 |
| Net Asset/(Liability) Recognised | (621,348) |
| Present value of Defined benefits obligations as at 31 March 2008 | 914,178 |
| Fair value of Plan assets as at 31 March 2008 | 292,830 |
| Funded Status [Surplus/(Deficit)] | (621,348) |
| Unrecognised assets as per paragraph 59(ii) of AS 15 | (1,530) |
| Net Asset/(Liability) Recognised in Balance Sheet | (622,878) |
| Components of employer's expense | |
| Current service cost | 27,115 |
| Interest cost | 63,209 |
| Expected return on assets | (28,937) |
| Net actuarial (gains)/losses | 94,677 |
| Net Cost recognised in the Profit and Loss Account | 156,064 |

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Schedules to the Financial Statements for the year ended 31 March 2008 (Continued)

E) Notes to accounts (Continued)

(vii) Statutory Disclosures (Continued)

s. Retirement Benefits (Continued)

Key Assumptions

| | |
|--------------------------------|---|
| Discount rate | 7.70% |
| Expected return on plan assets | 8.00% |
| Salary escalation rate | 6.5% for management staff and 5% for non management staff |

The estimates of future salary increases considered in actuarial valuation, take into consideration inflation, seniority, promotion and other relevant factors.

The Bank's pension and gratuity funds are managed by its trust and insurer respectively. Plan assets are invested in the approved securities.

Note 1: Pursuant to a business purchase agreement dated 29 February 2008, the cards and travel related business of the erstwhile American Express Bank Limited- India branches ('AEBL') was sold to American Express Banking Corporation-India branches ('AEBC'). Consequently, management is in the process of obtaining requisite regulatory approvals to separate the plan assets held by American Express Bank Ltd India Gratuity Fund and American Express Bank Ltd India Pension Fund, whose members currently include employees of both AEBC and erstwhile AEBL. Accordingly, Present Value of Defined Obligations of employees of AEBL has been disclosed separately based on actuarial valuation report but the fair value of plan assets have not been separately disclosed hereinabove. However, as at 31 March 2008, total plan assets exceeded the Present Value of Defined Obligations of employees of AEBL and AEBC.

(viii) Segment reporting

1) Segment description

The Bank has disclosed its operations under the following business segments:

| Segment Definition | Activities |
|--------------------|--|
| Treasury | Treasury activities include Foreign Exchange, Fixed Income, Money Market and Derivative transactions, Corporate Advisory, Purchase/ Sale of Non Performing Assets and Investment Banking. |
| Retail Banking | Retail banking serves retail customers through the branch network and other delivery channels. This segment raises deposits from customers and makes loans and provides other services to such customers. This segment also includes activities relating to credit cards, debit cards, mortgage loans, third party product distribution and their associated costs. Exposures are classified under retail banking taking into account the Orientation, Product, Granularity and individual exposure criterion. All Mortgage loans below Rs.5 crore have been classified as Retail exposure and for exposures in SME business segment, classification as per Orientation criterion has been made based on data available. |
| Wholesale Banking | Supply Chain Financing and all advances to trusts, partnership firms, companies and statutory bodies, by the Bank which are not included under the "Retail Banking" segment are reported under Wholesale Banking. |
| Others | Support Divisions such as Corporate Real Estate Services, Special Recovery Team, Human Resources, Finance, Legal and Compliance, Information Technology, Corporate Affairs, Strategic Sourcing, Government Relations and Organisational Learning are included in 'Others'. |

2) Segment Accounting Policy

Segment revenues stated below are aggregate of Schedule 13 - Interest income and Schedule 14 - Other income less Schedule 15 - Interest expended. Further, segment results are after considering the following inter-unit notional charges/recoveries:

a. Fund Transfer Pricing:

Treasury gives notional interest benefit to other divisions for the funds mobilised by the latter through deposits, and similarly charge notional interest to other divisions for the funds utilised by them for lending and investment purposes. Based on tenor of assets/liabilities and market scenarios, Treasury calculates notional interest rates used for this purpose.

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Schedules to the Financial Statements for the year ended 31 March 2008 (Continued)

E) Notes to accounts (Continued)

(viii) Segment reporting (Continued)

b. Premises Rental Chargeback:

Individual business segments are charged rentals based on notional market values in respect of the premises occupied by them.

- c.** Support costs (costs pertaining to Finance, HR, Corporate Real Estate Services, Legal & Compliance etc) are allocated to Treasury, Retail & Wholesale banking segments based on managements' estimates of the benefits accruing to these segments for the costs incurred. This is similar to the basis used for the internal management reporting.

3) Geographic Segments

Since the Bank does not have any material earnings originating outside India, the Bank is considered to operate only in the domestic segment.

4) Segment Reporting:

Current Year: 2007-08

(Rs in 000s)

| | Treasury | Retail Banking | Wholesale Banking | Others | Total |
|---------------------------------|-------------|----------------|-------------------|-------------|--------------|
| A. Net Segment | | | | | |
| Revenue | 21,448,707 | 15,479,061 | 12,383,437 | 687,150 | 49,998,355 |
| B. Segment Results | 18,305,985 | 3,274,157 | 6,740,260 | 72,415 | 28,392,817 |
| C. Operating Profit | - | - | - | - | 28,392,817 |
| D. Income Taxes (including FBT) | - | - | - | - | (11,330,468) |
| E. Net Profit | - | - | - | - | 17,062,349 |
| Other information | | | | | |
| F. Segment Assets | 337,947,327 | 158,632,659 | 210,884,849 | 26,987,604 | 734,452,439 |
| G. Segment Liabilities | 258,342,015 | 175,777,153 | 191,360,225 | 108,973,046 | 734,452,439 |

The classification of exposures to the respective segments conform to the guidelines issued by RBI vide DBOD.No.BP. BC.81/21.01.018/2006-07 dated April 18, 2007 based on the information available for classification. Due to the said change, figures for the year ended March 31, 2007 are not reclassified and hence not comparable.

Previous Year : 2006-07

(Rs in 000s)

| | Treasury | Other Banking operations | Others | Total |
|------------------------|-------------|--------------------------|-------------|-------------|
| A. Net Segment | | | | |
| Revenue | 12,242,371 | 24,500,643 | 673,219 | 37,416,233 |
| B. Segment Results | 11,124,417 | 12,367,863 | (2,571,958) | 20,920,322 |
| C. Operating Profit | - | - | - | 20,920,322 |
| D. Income Taxes | - | - | - | (7,277,200) |
| E. Net Profit | - | - | - | 13,643,122 |
| Other information | | | | |
| F. Segment Assets | 241,387,421 | 330,298,824 | 17,227,299 | 588,913,544 |
| G. Segment Liabilities | 172,676,222 | 346,859,641 | 69,377,681 | 588,913,544 |

(ix) Related Party Disclosures

- a) The list of related parties as defined in Accounting Standard (AS -18) – Related Party Disclosures and the nature of their relationship with Standard Chartered Bank India are given below:

- a) Name and Nature of relationship of related parties where control exists is as under:

| Name of the Related Parties | Nature of Relationship |
|---------------------------------------|------------------------------|
| 1 Standard Chartered Plc | Ultimate Parent Company |
| 2 Standard Chartered Bank, UK | Head Office and its Branches |
| 3 St Helen's Nominees Private Limited | 100% Subsidiary |

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Schedules to the Financial Statements for the year ended 31 March 2008 (Continued)

E) Notes to accounts (Continued)

(ix) Related Party Disclosures (Continued)

4 Subsidiaries of Head Office (Standard Chartered Bank UK) with whom transactions have occurred:

- i. Scope International Private Limited
- ii. Standard Chartered Asset Management Company Private Limited
- iii. Standard Chartered Trustee Company Private Limited
- iv. Standard Chartered (India) Wealth Advisory Services Private Limited
- v. Standard Chartered Finance Limited
- vi. Standard Chartered Investments and Loans India Limited
- vii. Standard Chartered Bank (Thai) Public Company Limited
- viii. Standard Chartered Bank Malaysia Berhad
- ix. Standard Chartered Bank (Mauritius) Limited
- x. Standard Chartered Bank Kenya Limited
- xi. Standard Chartered Bank Tanzania Limited
- xii. Standard Chartered Bank Botswana Limited
- xiii. Standard Chartered Bank Nepal Limited
- xiv. Standard Chartered Private Equity Advisory (India) Private Limited
- xv. Standard Chartered Private Equity (Mauritius) Limited
- xvi. Standard Chartered Bank (Hong Kong) Limited
- xvii. Standard Chartered Jersey Limited
- xviii. Standard Chartered Bank Pakistan Limited
- xix. Standard Chartered Grindlays Limited (Australia)
- xx. Standard Chartered First Bank Korea Limited
- xxi. Standard Chartered Bank China Limited
- xxii. Merchant Solutions Private Limited
- xxiii. Standard Chartered - STCI Capital Markets Ltd
- xxiv. Standard Chartered Bank Nigeria Limited
- xxv. Standard Chartered Bank Taiwan Limited (Hsinchu International Bank Ltd)
- xxvi. American Express Bank Limited
- xxvii. American Express Bank (Switzerland) A.G
- xxviii. American Express Bank GmbH – Germany

5. Key Management Personnel

In accordance with the RBI circular DBOD No. BP.BC.89/21.04.018/2002-03 dated 29 March 2003, only the Chief Executive Officer of the Bank falls under the category of key management. The Chief Executive officer of the Bank during the financial year 2007-08 was Neeraj Swaroop.

b) Transactions of the Bank with related parties are detailed below:

(i) Non banking transactions and balances

Subsidiaries of Head Office

(Rs in 000s)

| Particulars | For the year ended 31.3.2008 | For the year ended 31.3.2007 |
|-------------------------------|---------------------------------|---------------------------------|
| Leasing arrangements availed | 22,241 | 5,518 |
| Leasing arrangements provided | 248,527 | 124,148 |
| Sale of Fixed Assets | 46,698 | – |
| Rendering of services | 918,941 | 714,933 |
| Receiving of services | 2,526,377 | 1,954,407 |
| | As at 31.3.2008 | As at 31.3.2007 |
| Sundry Balances (Net) | 28,792 | 57,489 |

(ii) Banking transactions and balances

In line with the RBI circular DBOD No. BP.BC.89/21.04.018/2002-03 dated 29 March 2003, related party disclosures exclude transactions in a category where there is only one related party (i.e. key management personnel and Head Office and its branches).

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Schedules to the Financial Statements for the year ended 31 March 2008 (Continued)

E) Notes to accounts (Continued)

(ix) Related Party Disclosures (Continued)

Subsidiaries of Head Office

(Rs in 000s)

| Particulars | For the year ended 31.3.2008 | For the year ended 31.3.2007 |
|------------------------------|---------------------------------|---------------------------------|
| Interest Paid | 93,100 | 134,029 |
| Interest Received | 89,676 | 104,836 |
| Sale of foreign exchange | 659 | – |
| Purchase of foreign exchange | 365 | – |
| Sale of investments | 175,948 | – |

Subsidiaries of the Bank

(Rs in 000s)

| Particulars | As at 31.3.2008 | As at 31.3.2007 |
|-------------|-----------------|-----------------|
| Investments | 100 | 100 |

Subsidiaries of Head Office

(Rs in 000s)

| Particulars | As at 31.03.2008 | Maximum Outstanding during the year | As at 31.03.2007 | Maximum Outstanding during the year |
|------------------------|---------------------|---|---------------------|---|
| Borrowings | 617,326 | 18,061,488 | – | 681,639 |
| Subordinated Debts | 340,000 | 340,000 | 340,000 | 2,570,000 |
| Deposit/Vostros | 3,386,058 | 11,490,127 | 2,662,519 | 12,206,801 |
| Placement of deposits | – | – | – | – |
| Advances | 1,339,590 | 1,339,590 | 1,142,350 | 5,819,070 |
| Nostro Balances | 336,892 | 781,425 | 2,021 | 126,484 |
| Non-funded commitments | 27,097,733 | 35,002,526 | 16,335,325 | 18,532,528 |

(x) Leases

Commercial and residential premises are taken on operating leases, which are cancellable in nature. Information provided herein pertains to premises taken/given on operating leases:

(Rs. in 000s)

| | For the year ended 31 March 2008 | For the year ended 31 March 2007 |
|---|-------------------------------------|-------------------------------------|
| Lease payments recognized in the Profit and Loss account in respect of operating leases | 888,840 | 428,229 |

(Rs. in 000s)

| | For the year ended 31 March 2008 | For the year ended 31 March 2007 |
|----------------------------------|-------------------------------------|-------------------------------------|
| Assets given on lease – Premises | | |
| Gross carrying amount | 1,333,955 | 899,036 |
| Accumulated depreciation | 28,471 | 20,487 |
| Depreciation charge for the year | 8,135 | 5,505 |

- The Bank has not sub-leased any of the above assets.
- There are no provisions relating to contingent rent.
- The terms of renewal/purchase options and escalation clauses are those normally prevalent in similar agreements.
- There are no undue restrictions or onerous clauses in the agreements.

(xi) Deferred Tax

The deferred tax benefit of Rs. 68 million for the year ended 31 March 2008 (2006-2007 : Rs. 728 million) is included in Provision on account of tax under Schedule 17- Provisions and contingencies.

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Schedules to the Financial Statements for the year ended 31 March 2008 (Continued)

E) Notes to accounts (Continued)

(xi) Deferred Tax (Continued)

The primary components that gave rise to deferred tax assets and liabilities included in the balance sheet are as follows:

(Rs. in 000s)

| | As at 31 March 2008 | As at 31 March 2007 |
|---|---------------------|---------------------|
| Deferred tax assets | | |
| Provision for doubtful advances | 1,459,644 | 1,395,098 |
| Depreciation | 366,089 | 276,973 |
| Disallowances under section 43B of Income Tax Act, 1961 | 337,267 | 227,985 |
| Others | 83,938 | - |
| Deferred tax assets | 2,246,938 | 1,900,056 |
| Deferred tax liabilities | | |
| Deferred revenue expenditure | (36,231) | (31,356) |
| Deferred tax liabilities | (36,231) | (31,356) |
| Net deferred tax assets | 2,210,707 | 1,868,700 |

(xii) Revaluation of Premises

Premises are revalued periodically and are stated at revalued cost less depreciation. The most recent valuation of the premises was conducted in March 2008 (previously done in March 2006). The premises were stated at market values as at that date as determined by an external registered valuer. The resulting revaluation surplus amounting to Rs. 4,058 million was transferred to the revaluation reserve in March 2008 (previously Rs. 4,620 million in March 2006).

(xiii) Country Risk Exposure

The Bank does not have net funded exposure to any foreign country in excess of 1% of its total assets as on 31 March 2008 (2006-07: Nil). Hence, no provision has been made in respect of country risk.

(Rs. in 000s)

| Risk Category | Exposure (net) as at 31 March 2008 | Provision held as at 31 March 2008 | Exposure (net) as at 31 March 2007 | Provision held as at 31 March 2007 |
|---------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| Insignificant | 10,934,899 | - | 18,597,063 | - |
| Low | 1,643,355 | - | 426,834 | - |
| Moderate | 291,472 | - | 711,067 | - |
| High | 21,745 | - | - | - |
| Very High | 68,966 | - | 4,952 | - |
| Restricted | - | - | - | - |
| Off-credit | - | - | - | - |
| Total | 12,960,437 | - | 19,739,916 | - |

(xiv) Disclosure under Micro, Small & Medium Enterprises Development Act, 2006

There have been no reported cases of delays in payments in excess of 45 days to Micro, Small and Medium Enterprises or of interest payments due to delays in such payments.

(xv) Penalties

During the year no amount was paid as penalty to the RBI in exercise of powers under section 46(4) of the Banking Regulation Act, 1949 (2006-07: Nil).

(xvi) Primary Dealership

In line with RBI circular IDMD.PDRS. 01/03.64.00/2007-08 dated July 2, 2007, the details pertaining to the net borrowing in call for the year ended 31 March 2008 is given below:

(Rs. in 000s)

| Particulars | Average call borrowing | Maximum call borrowing |
|---------------|---------------------------|---------------------------|
| Net Borrowing | 6,440,456 | 30,950,000 |

Schedules to the Financial Statements for the year ended 31 March 2008 (Continued)

E) Notes to accounts (Continued)

(xvii) Customer complaints and awards of Banking Ombudsman

In accordance with RBI circular DBOD.No.BP.BC. No.14/21.04.018/2007-08 dated July 2, 2007, details with respect to customer complaints and awards passed by the Banking Ombudsman are given below:

Customer complaints:

| | Year ended 31 March 2008 | Year ended 31 March 2007 |
|--|-----------------------------|-----------------------------|
| (a) No. of complaints pending at the beginning of the year | 4 | 50 |
| (b) No. of complaints received during the year | 8,603 | 2,801 |
| (c) No. of complaints redressed during the year | 8,486 | 2,847 |
| (d) No. of complaints pending at the end of the year | 121 | 4 |

Complaints for the previous year 2006-07 included only escalated complaints, while the figures for the current year includes all complaints except those resolved within the next working day (as per the circular DBOD.No.Leg BC.81/09.07.005/2007-08). Due to this change in definition, the previous year figures are not comparable.

Awards passed by the Banking Ombudsman:

| | Year ended 31 March 2008 | Year ended 31 March 2007 |
|---|-----------------------------|-----------------------------|
| (a) No. of unimplemented Awards at the beginning of the year | - | - |
| (b) No. of Awards passed by the Banking Ombudsman during the year | 1 | 6 |
| (c) No. of Awards implemented during the year | 1 | 6 |
| (d) No. of unimplemented Awards at the end of the year | - | - |

(xviii) Prior Year Comparatives

Previous year figures are not comparable to that of the current year as those are of the standalone SCB and the current period figures are of the merged entity i.e. including erstwhile AEBL.

Previous year figures have been reclassified or regrouped wherever necessary unless otherwise stated to conform to the current year's presentation.

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Risk review and disclosures under Basel II Framework for the year ended 31st March 2008

Background

The risk related disclosures and analysis provided in this section are primarily in the context of the disclosures required under Pillar 3 – Market Discipline of the New Capital Adequacy Framework (commonly referred to as Basel II).

The disclosures herein below are in respect of the India branch of the Standard Chartered Bank, United Kingdom (UK) except where required and specifically elaborated to include to other Standard Chartered Group entities operating in India. The Standard Chartered Group (The SCB Group), is an international banking and financial services group particularly focused on the markets of Asia, Africa and the Middle East. It has a network of over 1,400 branches and offices in 57 countries and territories and almost 70,000 employees. The Standard Chartered Group is regulated by its home regulator viz. Financial Services Authority (FSA) of the United Kingdom.

The risk governance framework is in the process of being implemented in the case of recently acquired operations/entities e.g. American Express Bank Limited, India Branches.

The SCB Group and local management of Indian operations recognize that Basel II is a driver for continuous improvement of risk management practices. The SCB Group believes that adoption of leading risk management practices are essential for achieving its strategic intent. Accordingly, the Group has chosen the advanced approaches for measurement of credit and market risk under Basel II framework of our home regulator. However, in accordance with mandatory local regulations, we are adopting standardised approaches.

Risk Governance Framework

The basic principles of risk management followed by us are in line with our Group policy which includes:

- **Balancing risk and reward:** Risk is taken in support of the requirements of the Group's stakeholders. Risk should be taken in support of the Group strategy and within its risk appetite.
- **Responsibility:** Given the Group is in the business of taking risk, it is everyone's responsibility to ensure that risk taking is both disciplined and focused. The Indian Operations Group takes account of its social, environmental and ethical responsibilities in taking risk to produce a return.
- **Accountability:** Risk is taken only within agreed authorities and where there is appropriate infrastructure and resource. All risk taking must be transparent, controlled and reported.
- **Anticipation:** The Group looks to anticipate future risks and to maximise awareness of all risk.
- **Risk management:** The Group aims to have a world class specialist risk function, with strength in depth, experience across risk types and economic scenarios.

Ultimate responsibility for the effective governance of the Indian Operations, including risk governance rests with Management Committee (MANCO), headed by Country Chief Executive Officer (CEO). MANCO's composition includes the Functional Heads for business, control, and support functions in India. It is responsible for governance of the Bank in India, including compliance with all local laws and regulations, internal policies and processes and external standards mandated by Standard Chartered Group, apart from effective cooperation and coordination between the main businesses of the Bank in India.

Governance structure of the Indian operations also reflects the Standard Chartered Group's functional structure, and therefore, the various functional heads/country committees have reporting lines to their Group Functional Heads/Committees as well as to the Country CEO.

MANCO has three permanent committees, the Assets and Liabilities Committee (ALCO), the Country Operational Risk Group (CORG), and the Portfolio Management Committee (PMC).

ALCO membership consists of the CEO and Business heads of various parts of the Bank viz. Corporate Bank, Consumer Bank, Treasury and functional heads of Finance, Credit and Market Risk. The committee is chaired by the CEO. ALCO is responsible for the establishment of and compliance with policies relating to balance sheet management including management of the liquidity and capital adequacy. Liquidity Management Committee (LMC) is an executive body which is a sub-committee of the Country ALCO. It was created to manage liquidity in the Bank. It draws its members from Finance, the ALM and the Businesses.

PMC membership consists of the CEO, Business Heads, Credit Risk Heads, Economist and Head of Group Special Assets Management. PMC also has sub-committee called 'Credit Policy Committee' which is chaired by Country Chief Risk Officer. PMC's responsibility is to review the credit portfolio in country to ensure that systems and controls are in place and operating effectively to ensure that portfolio quality is maintained within prescribed standards.

CORG membership consists of the CEO, Business Heads, Support Functions Heads and Country Operational Risk Assurance Manager. Its responsibility is to provide a forum for the identification, assessment, mitigation and subsequent monitoring of country level Operational Risk trends and issues. It also ensures that there is full compliance with the Group's Operational Risk Management and Assurance Framework and promotes and sustains a high level of operational risk management culture within the country through review of the country operational risk profile and assigning appropriate ownership, actions and progress for all risks.

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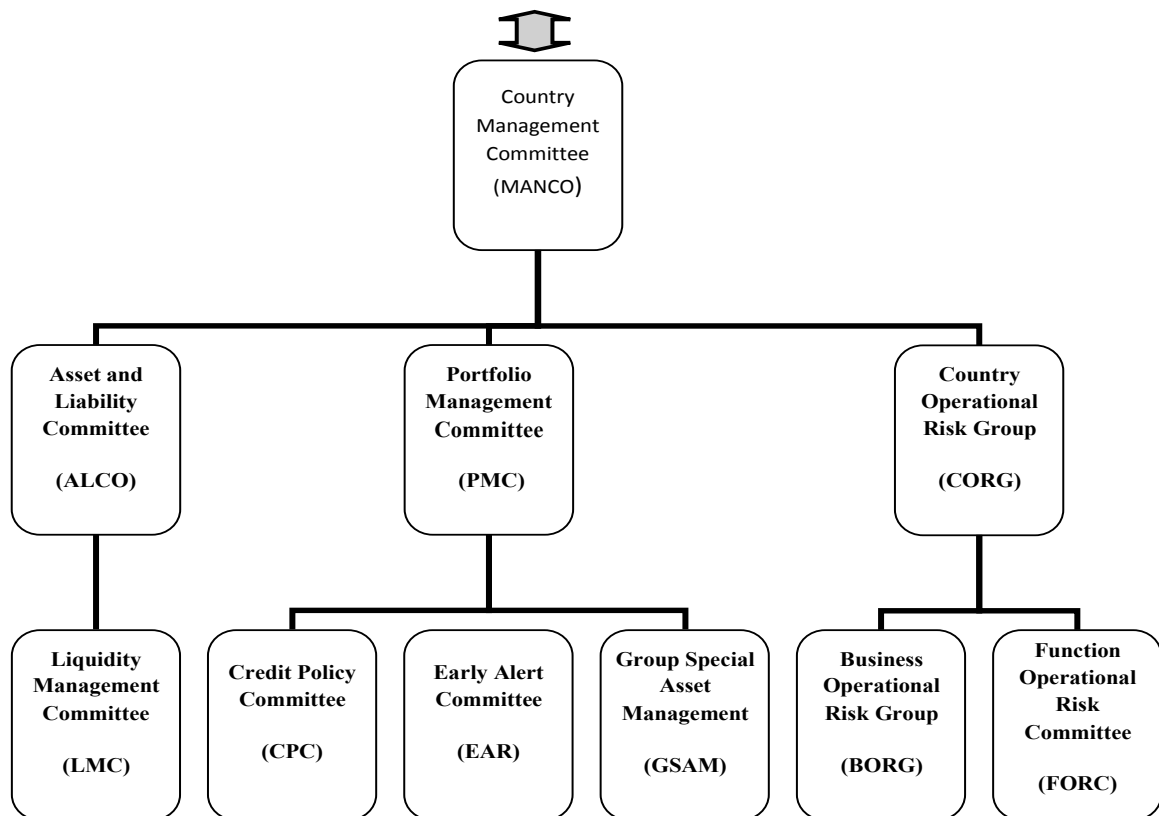
Risk review and disclosures under Basel II Framework for the year ended 31st March 2008 (Continued)

There are sub-committees at business or functional level to support the CORG in discharging its above responsibilities.

The committee process ensures that standards and policies are cascaded down through the organization. Key information is communicated through the committees to CEO and Group so as to provide assurance that standards and policies are being followed.

The diagram below illustrates the high level committee structure.

Parent Group Level Committees/Functions



The Country Chief Risk Officer (CCRO) manages the risk function which is independent of the businesses and which:

- recommends Group standards and policies for risk measurement and management;
- monitors and reports Group risk exposures for country, credit, market and operational risk;
- recommends risk appetite and strategy;
- provides oversight for setting of risk limits and monitoring exposure against risk limits
- sets country risk limits and monitors exposure;
- chairs the PMC and CPC.

Individual MANCO members are accountable for risk management in their businesses and support functions. This includes:

- implementing the policies and standards across all business activity;
- managing risk in line with appetite levels; and
- developing and maintaining appropriate risk management infrastructure and systems to facilitate compliance with risk policy.

Our Risk Management Framework (“RMF”) identifies 18 overall risk types, which are managed by designated Local Risk Type Owners (“LRTOs”), who have responsibility for setting minimum standards and governance and implementing governance and assurance processes. The LRTOs are all MANCO members and report up through specialist risk committees.

In support of the RMF we use a set of risk principles, which are sanctioned by our Group Risk Committee. These comprise a set of statements of intent that describe the risk culture that our Group wishes to sustain. All risk decisions and risk management activity should be in line with, and in the spirit of, the overall risk principles of the Group. The governance process is designed to ensure:

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Risk review and disclosures under Basel II Framework for the year ended 31st March 2008 (Continued)

- business activities are controlled on the basis of risk adjusted return;
- risk is managed within agreed parameters with risk quantified wherever possible;
- risk is assessed at the outset and throughout the time that the entity continues to be exposed to it;
- all applicable laws, regulations and governance standards are abided by;
- high and consistent ethical standards are applied to the entity's relationships with its customers, employees and other stakeholders; and
- activities are undertaken in accordance with fundamental control standards. These controls include the disciplines of planning, monitoring, segregation, authorisation and approval, recording, safeguarding, reconciliation and valuation.

The Country Chief Risk Officer, together with Group Internal Audit and Country Operational Risk Assurance Manager, provide assurance, independent from the businesses, that risk is being measured and managed in accordance with our standards and policies.

Risk Appetite

Risk appetite is an expression of the amount of risk the entity is prepared to take to achieve its strategic objectives. The entity's risk appetite defines the acceptable level of earnings volatility.

Recognising a range of outcomes as business plans are implemented, risk appetite reflects the entity's capacity to sustain potential losses at varying levels of probability, based on available capital resources.

In line with the Group policy, the entity has defined its risk appetite in the context of three key criteria: the overall capacity to take risk; balancing the expectations of all key stakeholders; and support for the Group's credit rating.

The entity uses a range of quantitative risk indicators including capital ratios, profitability, return on equity, portfolio credit risk profile and market risk VaR, through which senior management monitor the entity's risk profile. In addition to financial measures of risk, the entity also controls risk through concentration caps and underwriting policies. Measures vary by business and product area.

The annual business planning and regular performance management processes aim to ensure the expression of risk appetite remains appropriate.

Stress Testing & portfolio impact analysis

Stress testing and scenario analysis are used to assess the financial and management capability of the entity to continue operating effectively under extreme but plausible trading conditions. Such conditions may arise from economic, legal, political, environmental, and social factors.

Stress testing and scenario analysis help to inform management with respect to:

- the identification of potential future risks;
- the setting of the entity's risk appetite;
- the nature and dynamics of the risk profile;
- the robustness of risk management systems and controls;
- the adequacy of contingency planning; and
- the effectiveness of risk mitigants.

Stress testing framework

Our stress testing framework has been designed to meet the following requirements:

- enable the Group to set and monitor its risk appetite;
- identify key risks to the entity's strategy, financial position, and reputation;
- assess the impact on the entity's profitability and business plans;
- seek to ensure effective governance, processes and systems are in place to co-ordinate and integrate stress testing;
- inform senior management; and
- satisfy regulatory requirements.

The stress testing forum is led by the Risk function with participation from the businesses, Finance and ALCO. Its primary objective is to seek to ensure the entity understands the earnings volatility and capital implications of given stress scenarios. A key responsibility of the stress testing forum is to generate and consider pertinent and plausible scenarios that have the potential to adversely affect the entity.

When there is market turbulence (as was witnessed in 2007-2008), portfolio impact analysis is intensified at country and business levels, with specific focus on certain asset classes, client segments and the potential impact of macro economic factors. These stress tests take into consideration possible future scenarios that could arise as a result of prevalent market conditions.

Scope of application of Basel II Consolidation Framework

The top bank in India of the Group to which the revised capital framework applies is Indian branches of Standard Chartered Bank (SCB or the Bank), which is incorporated with limited liability in the United Kingdom. Indian branch operations are conducted in accordance with the banking license granted by Reserve Bank of India under the Banking Regulation Act 1949. The ultimate parent company of the Bank is Standard Chartered PLC, which is listed on both the London Stock Exchange and the Stock Exchange of Hong Kong.

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Risk review and disclosures under Basel II Framework for the year ended 31st March 2008 (Continued)

The consolidation norms for accounting are determined by the prevailing Indian Generally Accepted Accounting Principles (GAAP) viz. AS 21 Consolidated Financial Statements (CFS) and AS 27 Financial Reporting of Interests in Joint Ventures (JVs). The regulatory requirements are governed by circulars and guidelines of the Reserve Bank of India (RBI). The differences between consolidation for accounting purposes and regulatory purposes are mainly on account of following reasons.

- 1) **Control over other entities to govern the financial and operating policies of the subsidiaries or Joint Ventures**
According to Indian GAAP, existence of control/joint control to govern the financial and operating policies of the subsidiary or joint venture, respectively, is necessary for accounting consolidation. However, certain entities (Non banking finance companies) have to be consolidated for regulatory capital adequacy purposes even where above requirement is not fulfilled. Such cases are where the ability to control financial and operating policies of the entities legally vests with the Parent or Group entities and not with the India branch operations.
- 2) **Nature of business of the entities to be consolidated**
According to Indian GAAP, subsidiaries are not excluded from consolidation because of dissimilar nature of business activities between subsidiary and other entities within the Group. However, RBI regulations do not require consolidation of entities engaged in insurance business and businesses not pertaining to financial services.
- 3) **Method of consolidation**
The accounting consolidation method requires the 'line by line' consolidation and elimination of all inter-group balances. However, for the purpose of regulatory consolidation under capital adequacy framework, the risk weighted assets and capital requirements for each entity can be computed separately by applying the Basel II norms as applicable for a bank and simply added together those with that of the top bank in the consolidated group. We have adopted the latter approach for consolidation of entities for limited purpose of capital adequacy framework as the accounting consolidation method is not appropriate considering the legal ownership pattern of the consolidated entities.

Details of the entities consolidated for regulatory purposes is summarized below

| Name of the entity | Status for regulatory purposes | Nature of business | Description of the entity | Type of consolidation |
|--|---|---|--|-----------------------|
| Standard Chartered Bank India Branches | Licensed bank in India | Banking and financial services | Branch operation of foreign bank viz. SCB, UK | Full |
| St Helen Nominees India Pvt Ltd | Fully owned subsidiary of Licensed bank | Holding government securities and shares/debentures in limited companies on behalf of SCB India including those given as collaterals to SCB against customer advances | Private Limited Company incorporated under Indian Companies Act | Full |
| Standard Chartered Investments & Loans India Limited (SCILL) | Entity controlled by Licensed bank's Parent/Group | Financial services acceptable for an NBFC other than accepting public deposits e.g. lending, investments etc. | a) Private Limited Company incorporated under Indian Companies Act b) NBFC registered with RBI and categorized as Non deposit taking systemically important NBFC. | Full |
| Standard Chartered Finance Limited (SCFL) | Entity controlled by Licensed bank's Parent/Group | Rendering BPO services and marketing services for SCB India branches | Private Limited Company incorporated under Indian Companies Act | Full |

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Risk review and disclosures under Basel II Framework for the year ended 31st March 2008 (Continued)

Quantitative Disclosures

The aggregate amount of capital deficiencies in all subsidiaries not included in the consolidation i.e. that are deducted and the name(s) of such subsidiaries. NIL

The aggregate amounts (e.g. current book value) of the bank's total interests in insurance entities, which are risk-weighted as well as their name, their country of incorporation or residence, the proportion of ownership interest and, if different, the proportion of voting power in these entities. In addition, indicate the quantitative impact on regulatory capital of using this method versus using the deduction. NIL

Capital structure and capital adequacy

Capital structure – Summary of main features of capital instruments

a) Tier 1 capital include the following

Capital funds injected by Head office (Standard Chartered Bank, UK), certain percentage of net profits of each year retained as per statutory norms, remittable net profits retained in India for meeting minimum regulatory capital requirements, reserves created out of profits on account of sale of immovable properties/held to maturity investment. All of these funds are not repayable/distributable to head office as long as the bank operates in India. Also, no interest is payable on these funds.

b) Tier 2 capital comprises of the following elements

- i) 45% of Revaluation reserve created due to periodic revaluation of immovable properties in accordance with the Indian GAAP
- ii) General provisions on standard (performing) assets created in line with RBI regulations
- iii) Subordinated debts, both local currency and foreign currency instruments

These are unsecured, unguaranteed and subordinated to the claims of other creditors including without limitation, customer deposits and deposits by banks. Refer note 18(E)(iii) in financial statements for details of outstanding subordinated debts.

Capital and risk weighted assets

(Rs. in 000s)

| | 31 March 2008 | | Consolidated bank* Basel II |
|---|-------------------|-------------------|--------------------------------|
| | Solo bank* | Basel I | |
| | Basel II | Basel I | Basel II |
| Tier 1 Capital : | | | |
| Head Office Capital | 6,757,992 | 6,757,992 | 6,757,992 |
| Paid up capital | | | 4,615,757 |
| Eligible reserves | 62,315,499 | 62,315,499 | 62,617,312 |
| Goodwill and other intangible assets | (2,221,218) | (2,221,218) | (2,247,089) |
| Unconsolidated subsidiaries/associates | (100) | (100) | (100) |
| Other regulatory adjustments | (5,538) | (350,059) | (5,538) |
| Total Tier 1 Capital | 66,846,635 | 66,502,114 | 71,738,335 |
| Tier 2 Capital : | | | |
| Eligible revaluation reserves | 5,548,984 | 5,548,984 | 5,548,984 |
| General provision | 2,613,593 | 2,613,593 | 2,613,593 |
| Debt instruments eligible as Upper Tier 2 (of which amount raised during the year Rs 10,030,000) | 13,980,000 | 13,980,000 | 13,980,000 |
| Qualifying subordinated debts (of which amount raised during the year Rs 000s) | 13,980,000 | 13,980,000 | 13,980,000 |
| Less: Amortisation of qualifying subordinated debts | (2,760,000) | (2,760,000) | (2,760,000) |
| Other regulatory adjustments | - | (344,521) | - |
| Total Tier 2 Capital | 19,382,577 | 19,038,057 | 19,382,577 |
| Investments in other banks | | | |
| Other deductions | | | |
| Total capital base | 86,229,212 | 85,540,171 | 91,120,913 |
| Minimum regulatory capital requirements | | | |
| Credit risk | 46,583,041 | 41,445,471 | 47,732,282 |
| Standardized approach portfolios | 46,543,990 | - | 47,693,230 |
| Securitisation exposures | 39,051 | - | 39,051 |
| Market risk | 20,991,922 | 21,045,329 | 20,992,649 |
| Interest rate risk | 10,411,970 | 10,362,602 | 10,412,345 |
| Foreign exchange risk (including gold) | 315,000 | 315,000 | 315,000 |
| Equity risk | 31,369 | 31,369 | 31,369 |
| Counterparty/settlement risks | 10,233,583 | 10,336,358 | 10,233,935 |

Risk review and disclosures under Basel II Framework for the year ended 31st March 2008 (Continued)

(Rs. in 000s)

| | 31 March 2008 | | |
|---|------------------|--------------------|--------------------|
| | Solo bank* | Consolidated bank* | Consolidated bank* |
| | Basel II | Basel I | Basel II |
| Operational risk | 5,705,572 | – | 6,087,798 |
| Basic indicator approach | 5,705,572 | – | 6,087,798 |
| Total minimum regulatory capital requirements | 73,280,535 | 62,490,800 | 74,812,728 |
| Risk weighted assets and contingents | | | |
| Credit risk | 517,589,341 | 460,505,232 | 530,358,685 |
| Market risk (including counterparty/settlement risks) | 233,243,579 | 233,836,994 | 233,251,652 |
| Operational risk | 63,395,242 | – | 67,642,198 |
| Basic indicator approach | 63,395,242 | – | 63,395,242 |
| Total Risk weighted assets and contingents | 814,228,162 | 694,342,226 | 831,252,536 |
| Capital ratios | | | |
| Tier 1 capital | 8.21% | 9.58% | 8.63% |
| Tier 2 capital | 2.38% | 2.74% | 2.33% |
| Total capital | 10.59% | 12.32% | 10.96% |

* Solo bank represents main licensed bank of the Group in India and Consolidated bank includes group controlled entities operating in India and consolidated for limited purpose of capital adequacy framework. Basel 2 CRAR for SCILL is 33.99% and for SCFL it is 15.12%. The figures used for group controlled entities are based on unaudited results.

Capital adequacy approach

The bank has a dynamic and robust capital planning/management process with the overall objectives of maintaining adequate capital to meet regulatory standards/expectations and optimum use of capital at all times. Capital planning/management is the responsibility of country Asset and Liability Committee (Country ALCO) with the active support and guidance of Group ALCO, Group Capital Management Committee and Group Treasury.

The capital position is reviewed as part of the annual budget process and regular business performance forecast process. This process of capital evaluation takes into account business growth (organic as well as inorganic), additional capital needs due to expected regulatory changes and impact of certain stress scenarios. Additional capital requirements are subjected to a regular/robust review and approval process by Senior Management of Country as well as Group Head Office. As a target ratio, the country management aim is to maintain a capital adequacy ratio of around 10% at all times. There is a monthly reporting/monitoring process to Country ALCO and Group ALCO on actual position.

The bank being a branch operation and considering the current regulatory environment, its source of capital is primarily infusion of capital by Group Head Office and profits generated locally. Our Group is in the top 25 FTSE – 100 companies by market capitalisation and is well established in growth markets such as Asia, Africa and the Middle East. It remains strongly capitalised and has a target capital adequacy ratio 12-14% at Group level.

Our Group Head Office has rolled out a comprehensive internal capital adequacy assessment process framework in line with Pillar 2 requirements of revised capital adequacy framework implemented by our home regulator. This Risk Management Framework ensures that all types of risk are considered in analysing capital requirements and in establishing clear accountability for robust systems and controls. The framework includes, inter alia, monitoring and reporting of key risks of Pillar 1 as well as Pillar 2 such as Credit risk, Market Risk, Operational Risk and also Liquidity Risk, Interest Rate Risk in the Banking Book, Credit Concentration Risk, Operations Risk etc. This framework encompasses application of advanced models/techniques such as Economic Capital, VaR and Group Senior Management oversight of key risks via committees with clear roles/responsibilities. Currently, there are processes for Stress Testing for some of key material risks and are undergoing improvements in line with market best practices.

Credit risk – General

Credit risk is the risk that a counterparty to a financial instrument will cause financial loss for the entity by failing to discharge an obligation. Credit exposures include both individual borrowers and groups of connected counterparties and portfolios in the banking and trading books. Credit risk arises from direct lending activities as well as off balance sheet transactions such as trade finance services and also derivatives transactions. Credit risk is one of three core risks the entity faces and therefore, considerable attention and resources are devoted to managing this risk.

Group Risk Committee alongwith PMC at country level have clear responsibility for credit risk. GRC's role broadly encompasses the following:

- Setting Credit risk management standards, policies and processes
- Delegation of Credit authorities for ensuring controlled credit decision making through appointment of Risk officers for each businesses
- Ensure avoidance of conflict of interest while taking credit decision by having a reporting line for the risk officers into the Group Chief Risk Officer which is separate from business (relationship/sales).

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Risk review and disclosures under Basel II Framework for the year ended 31st March 2008 (Continued)

We have a robust credit risk management culture underpinned by a strong risk architecture comprising of senior level engagement and through well laid out credit policy & process framework with accountability at all levels of the risk and business chain.

Policies and procedures that are specific to each business are established by both Consumer and Wholesale Banking. These are consistent with Group-wide policies but adapted to reflect the different risk environments and portfolio characteristics. There are credit risk officers for both the Consumer and Wholesale Banking businesses, who have their primary reporting line into Chief Risk Officers for the respective business. This ensures the independence of the Risk function from the origination and sale functions.

Both Wholesale Bank and Consumer Bank use advanced measurement approaches for evaluation of credit risk for internal management like evaluating new credit proposals, portfolio management, allocation of capital etc. These advanced approaches involve substantial use of statistical models and determination of key risk parameters viz. probability of default (PD), Loss Given Default (LGD) and Exposure at Default (EAD). Use of these risk parameters results in a more scientific way of measuring credit risk. The statistical models require significant amount of high quality reliable data and have recently undergone a thorough review/challenge process by internal/external parties and regulatory authorities under the Basel II framework. Both wholesale Banking and Consumer Banking have fully operational data warehouses.

Wholesale Banking

Within the wholesale banking business a Pre-sanction appraisal is carried out by the relationship manager through a Business Credit Application (BCA). Credit risk is managed through a framework which sets out policies covering the measurement and management of credit risk. There is a clear segregation of duties between transaction originators and the approvers in the Risk function. BCA's are reviewed and duly approved by the relevant credit authority using an alphanumeric grading system for quantifying risks associated with a counterparty. The grading is based on a probability of default measure, with customers analyzed against a range of quantitative and qualitative measures. The numeric grades run from 1 to 14. Counterparties with lower credit grades are assessed as being less likely to default. An A to C scale is assigned to the original numeric rating scale to enable more granular mapping of the probability of default, which results in a more refined risk assessment, risk control and pricing. A counterparty with an A suffix has a lower probability of default than a counterparty with a C suffix. Credit grades 1A to credit grade 12C are assigned to performing customers while credit grades 13 and 14 are assigned to non-performing (or defaulted) customers. There is no direct relationship between the internal credit grades and those used by external rating agencies. Our credit grades are not intended to replicate external credit grades, although as the risk factors used to grade a borrower are often similar, a borrower rated poorly by an external rating agency is typically rated in the lower rank of our internal credit grades. Also, we have a system of rating facilities numerically in order to evaluate/measure the facility characteristics.

Expected loss in addition to absolute nominal is used in the assessment of individual exposures and portfolio analysis. Expected loss is the long-run average credit loss across a range of typical economic conditions. It is used in the delegation of credit approval authority and must be calculated for every transaction to determine the appropriate level of approval. In accordance with the credit authority delegation, significant exposures are reviewed and approved centrally through a Group or regional level credit committee. These committees are responsible to the Group Risk Committee. All the credit facilities are subject to an annual credit review process. However, since recently, Loss given default (LGD) is being used in the assessment of individual exposures and portfolio analysis and in the delegation of credit approval authority.

SCB's Credit Policy requires strict adherence to laid down credit procedures and deviations, if any, are approved and captured through the credit appraisal process. Sufficient checks are also undertaken at various levels, including Credit Risk Control (CRC) to ensure that deviations are justified and appropriately approved and would not result in any undue loss/risk to the bank.

Consumer Banking

For Consumer Banking, standard credit application forms are generally used, which are processed in central units using largely automated approval processes. Where appropriate to the customer, the product or the market, a manual approval process is in place. As with Wholesale Banking, origination and approval roles are segregated.

Sale of credit products is governed by the DSR (Direct Sales Representative) Policy, which among other requirements, lays down policies governing recruitment, verification, training and monitoring of sales staff. Credit decisions are independent of the sales/marketing functions and there are clear and specific delegated authorities. Department level Key Control Standards and regular audits ensure compliance to policy and delegated authorities.

Credit grades within Consumer banking are based on a probability of default calculated using advanced internal rating based (IRB) models. In case of portfolio where such IRB models are yet to be developed, the probability of default is calculated using portfolio delinquency flow rates. An alphanumeric grading system identical to that of the Wholesale Banking is used as an index of portfolio quality.

To aid credit managers in portfolio management, regular internal risk management reports contain information on key economic/environment trends across major portfolios, portfolio delinquency and loan impairment performance, as well as IRB portfolio metrics including migration across credit grades and other trends.

Problem Credit Management and Provisioning

Credit Monitoring (review of performance and compliance with risk triggers/covenants) is undertaken for WB customers on a quarterly basis and on a monthly basis for CB customers. In addition, account conduct is also tracked on a monthly basis in terms of past dues, excesses, documentation, compliance with covenants and progress on exits accounts through the Account Subject to Additional Review Process (ASTAR). Potential problem credits are picked up through the credit monitoring process and are reported to the Early Alert Committee (EAR) for additional review. In addition, portfolio level review for both WB & CB is undertaken to track portfolio performance against local underwriting standards/Group Policy. Outcomes of such reviews are placed before the quarterly Portfolio Management Committee for review.

Risk review and disclosures under Basel II Framework for the year ended 31st March 2008 (Continued)

Wholesale Banking

In Wholesale Banking, accounts or portfolios are placed on Early Alert when they display signs of weakness or financial deterioration, for example where there is rapid decline in the client's performance within the industry, a breach of covenants, non performance of an obligation, or there are issues relating to ownership or management. Such accounts and portfolios are subject to a dedicated process with oversight involving Senior Risk Officers and Group Special Asset Management ("GSAM"). Account plans are re-evaluated and remedial actions are agreed and monitored until complete credit rating is re-affirmed. Remedial actions include, but are not limited to, exposure reduction, security enhancement, exit of the account or immediate movement of the account into the control of GSAM, the specialist recovery unit.

There are no differences between definition of past due/impaired account and provisioning norms for local accounting and regulatory purposes. Loans are designated as impaired and considered non-performing where analysis and review recognised weakness indicates that full payment of either interest or principal becomes questionable or as soon as payment of interest or principal is 90 days or more overdue. Impaired accounts are managed by GSAM, which is independent of the main businesses of the Group. The provisioning policy is higher of the minimum provision required under RBI guidelines and that required under the global policy of Group. Where any amount is considered uncollectable, a specific provision is raised. In any decision relating to the raising of provisions, we attempt to balance economic conditions, local knowledge and experience, and the results of independent asset reviews.

Where it is considered that there is no realistic prospect of recovering an element of an account against which an impairment provision has been raised, then that amount will be written off.

We also maintain general provision as a percentage of performing standard advances as prescribed by the RBI to cover the inherent risk of losses.

The cover ratio reflects the extent to which gross non-performing loans are covered by individual and general impairment provisions. At 97% per cent, the Wholesale Banking non-performing portfolio is well covered. The balance uncovered by individual impairment provision represents the value of collateral held and/or the Group's estimate of the net value of any work-out strategy.

Consumer Banking

Within Consumer banking, an account is considered to be delinquent when payment is not received on the due date. For delinquency reporting purposes, we follow international industry standards measuring delinquency as of 30, 60, 90, 120 and 150 days past due. Accounts that are overdue by more than 30 days are closely monitored and subject to a specific collections process. There are no differences between definition of past due/impaired account and provisioning norms for local accounting and regulatory purposes. Loans are designated as impaired and considered non-performing where recognised weakness indicates that full payment of either interest or principal becomes questionable or as soon as payment of interest or principal is 90 days or more overdue. The process used for raising provisions is dependent on the product category and higher of the minimum provision required under RBI guidelines and that required under the global policy of Group is considered for local accounting/reporting purposes. In case of unsecured products, outstanding balances generally written off at 150 days past due or full provisions are created. In case of secured products like Mortgage, provision is raised after considering the realizable value of the collateral. For all products there are certain accounts, such as cases involving bankruptcy, fraud and death, where the loss recognition process is accelerated.

We also maintain general provision as a percentage of performing standard advances as prescribed by the RBI to cover the inherent risk of losses.

Quantitative disclosures

- a) Analysis of total gross credit risk exposures; fund based and non-fund based separately.

(Rs. in 000s)

| Nature & category of exposures | Credit risk exposures | |
|--|-----------------------|--------------------|
| | 31 March 2008 | 31 March 2007 |
| Inter bank exposures | 10,373,850 | 19,612,868 |
| Investments (HTM) | 11,028,159 | 7,328,339 |
| Advances | 337,292,877 | 304,713,771 |
| Total gross fund based exposures | 358,694,886 | 331,654,978 |
| Specific provisions/Provisions for depreciation in the value of investment | (3,777,621) | (3,675,795) |
| Total net fund based exposures | 354,917,265 | 327,979,183 |
| Fx and derivative contracts | 262,052,572 | 155,721,066 |
| Guarantees, Acceptances, endorsements and other obligations | 138,325,104 | 105,167,284 |
| Other commitments and credit lines* | 51,795,146 | 39,479,354 |
| Total gross non fund based exposures** | 452,172,822 | 300,367,704 |
| Specific provisions | (1,237) | (3,083) |
| Total net non fund based exposures | 452,171,585 | 300,364,621 |

* Excluding 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

** For non fund based exposures credit risk exposures or equivalents are computed as under :

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Risk review and disclosures under Basel II Framework for the year ended 31st March 2008 (Continued)

- In case of exposures other than fx and derivative contracts, credit equivalent is arrived at by multiplying the underlying contract or notional principal amounts with the credit conversion factors prescribed by the RBI under the Basel II capital framework.
- In case of fx and derivative contracts, credit equivalents are computed using the current exposure method which includes a two steps as under :
 - computation of current credit exposure which is sum of the positive mark-to-mark value of the outstanding contracts
 - Potential future credit exposure which is determined by multiplying the notional principal amounts by the relevant 'add-on' factor based on tenor and type of underlying contracts.

b) Analysis of geographic distribution of exposures; fund based and non-fund based separately

(Rs. in 000s)

| Nature & category of exposures | 31 March 2008 | | | 31 March 2007 | | |
|---|-----------------------|----------|-------------|-----------------------|----------|-------------|
| | Credit risk exposures | | | Credit risk exposures | | |
| | Domestic | Overseas | Total | Domestic | Overseas | Total |
| Inter bank exposures | 10,373,850 | - | 10,373,850 | 19,612,868 | - | 19,612,868 |
| Investments (HTM) | 11,028,159 | - | 11,028,159 | 7,328,339 | - | 7,328,339 |
| Advances | 337,292,877 | - | 337,292,877 | 304,713,771 | - | 304,713,771 |
| Total gross fund based exposures | 358,694,886 | - | 358,694,886 | 331,654,978 | - | 331,654,978 |
| Specific provisions | (3,777,621) | - | (3,777,621) | (3,675,795) | - | (3,675,795) |
| Total net fund based exposures | 354,917,265 | - | 354,917,265 | 327,979,183 | - | 327,979,183 |
| Fx and derivative contracts (Add-on+MTM) | 262,052,572 | - | 262,052,572 | 155,721,066 | - | 155,721,066 |
| Guarantees, Acceptances, endorsements and other obligations | 138,325,104 | - | 138,325,104 | 105,167,284 | - | 105,167,284 |
| Guarantees given on behalf of constituents | - | - | - | - | - | - |
| Other commitments and credit lines* | 51,795,146 | - | 51,795,146 | 39,479,354 | - | 39,479,354 |
| Total gross non fund based exposures** | 452,172,822 | - | 452,172,822 | 300,367,704 | - | 300,367,704 |
| Specific provisions | (1,237) | - | (1,237) | (3,083) | - | (3,083) |
| Total net non fund based exposures | 452,171,585 | - | 452,171,585 | 300,364,621 | - | 300,364,621 |

Note: Geographic distribution of exposure is prepared on the same basis as adopted for segmental reporting under ASI7.

c) Analysis of industrywise distribution of exposures; fund based and non-fund based separately

(Rs. in 000s)

| Nature & category of industry | 31 March 2008 | | | 31 March 2007 | | |
|---------------------------------------|-----------------------|------------------|--------------------|-----------------------|------------------|--------------------|
| | Credit risk exposures | | | Credit risk exposures | | |
| | Fund based | Non fund based | Total | Fund based | Non fund based | Total |
| Loans to individuals | | | | | | |
| – Mortgages | 5,945,547 | - | 5,945,547 | 65,995,468 | - | 65,995,468 |
| – Other | 50,256,333 | 1,443,594 | 51,699,927 | 45,083,426 | - | 45,083,426 |
| – Small and medium enterprises | 38,615,594 | 6,356,306 | 44,971,900 | 23,271,954 | 3,531,855 | 26,803,809 |
| Consumer Banking | 148,324,474 | 7,799,900 | 156,124,374 | 134,350,848 | 3,531,855 | 137,882,703 |
| Coal | - | - | - | - | 78,000 | 78,000 |
| Mining | 3,717,620 | 629,960 | 4,347,580 | 1,659,608 | 275,568 | 1,935,176 |
| Iron & Steel | 3,831,283 | 4,543,689 | 8,374,972 | 2,606,521 | 3,305,052 | 5,911,573 |
| Other Metals & Metal Products | 10,194,013 | 7,708,840 | 17,902,853 | 8,103,843 | 7,252,381 | 15,356,224 |
| All Engineering | 15,296,218 | 30,580,423 | 45,876,641 | 11,444,862 | 30,508,409 | 41,953,271 |
| Of which : Electronics | 4,803,720 | 7,101,044 | 11,904,764 | 4,947,704 | 11,965,173 | 16,912,877 |
| Electricity (Gen & Trans) | - | - | - | 840,518 | - | 840,518 |
| Cotton Textiles | 634,211 | 32,828 | 667,039 | 324,419 | 198,352 | 522,771 |
| Jute Textiles | - | - | - | - | - | - |
| Other Textiles | 9,337,571 | 1,752,190 | 11,089,761 | 7,719,072 | 1,175,149 | 8,894,221 |
| Sugar | 1,372,748 | 31,741 | 1,404,489 | 599,713 | 223,162 | 822,875 |
| Tea | 37,816 | 35,584 | 73,400 | 107,687 | 7,381 | 115,068 |
| Food Processing | 1,540,743 | 254,840 | 1,795,583 | 1,362,141 | 206,659 | 1,568,800 |
| Vegetables Oils (including Vanaspati) | 980,053 | 1,267,819 | 2,247,872 | 1,609,703 | 1,534,668 | 3,144,371 |
| Tobacco & Tobacco Products | 2,142,901 | 528,002 | 2,670,903 | 1,012,238 | 672,638 | 1,684,876 |
| Paper & Paper Products. | 1,671,469 | 920,476 | 2,591,945 | 1,435,044 | 1,305,111 | 2,740,155 |
| Rubber & Rubber Products. | 1,679,065 | 1,000,700 | 2,679,765 | 464,711 | 938,453 | 1,403,164 |

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Risk review and disclosures under Basel II Framework for the year ended 31st March 2008 (Continued)

| Nature & category of industry | 31 March 2008 | | | 31 March 2007 | | |
|------------------------------------|-----------------------|--------------------|--------------------|-----------------------|--------------------|--------------------|
| | Credit risk exposures | | | Credit risk exposures | | |
| | Fund based | Non fund based | Total | Fund based | Non fund based | Total |
| Chemicals, Dyes, Paints etc. | 19,402,035 | 13,544,869 | 32,946,904 | 21,110,918 | 9,272,424 | 30,383,342 |
| Of which Fertiliser | 200,559 | 279,489 | 480,048 | 300,074 | 765,338 | 1,065,412 |
| Of which Petro-chemicals | 3,957,176 | 4,660,327 | 8,617,503 | 7,638,767 | 3,204,487 | 10,843,254 |
| Of which Drugs & Pharmaceuticals | 9,907,848 | 2,664,588 | 12,572,436 | 8,527,992 | 1,303,446 | 9,831,438 |
| Cements | 882,149 | 2,299,036 | 3,181,185 | 491,978 | 543,762 | 1,035,740 |
| Leather & Leather Products. | 325,410 | 99,705 | 425,115 | 100,047 | 22,858 | 122,905 |
| Gems & Jewellery | 141,267 | 665,992 | 807,259 | 134,194 | 655,110 | 789,304 |
| Constructions | 4,240,984 | 13,250,989 | 17,491,973 | 6,491,890 | 10,961,014 | 17,452,904 |
| Petroleum | 1,678,065 | 2,887,042 | 4,565,107 | 2,106,359 | 953,401 | 3,059,760 |
| Automobiles including trucks | 9,693,365 | 8,590,019 | 18,283,384 | 8,203,974 | 9,411,541 | 17,615,515 |
| Computer software | 3,147,895 | 4,404,411 | 7,552,306 | 786,246 | 7,786,181 | 8,572,427 |
| Infrastructure | 8,209,479 | 26,297,468 | 34,506,947 | 7,556,429 | 22,018,297 | 29,574,726 |
| Of which Power | 159,543 | 2,059,425 | 2,218,968 | - | 2,008,617 | 2,008,617 |
| Of which Telecommunications | 1,172,756 | 9,846,264 | 11,019,020 | 467,936 | 8,938,175 | 9,406,111 |
| Of which Roads & Ports | 6,818,180 | 13,211,966 | 20,030,146 | 7,088,492 | 11,071,506 | 18,159,998 |
| Other Industries | 33,156,036 | 67,206,735 | 100,362,771 | 28,594,336 | 47,579,422 | 76,173,758 |
| NBFC & Trading | 39,797,456 | 6,193,859 | 45,991,315 | 33,707,193 | 3,812,274 | 37,519,467 |
| Residual advances to balance | | | | | | |
| Gross Advances | 15,858,551 | 7,951,872 | 23,810,409 | 21,790,270 | 576,410 | 22,366,680 |
| Wholesale Banking | 188,968,403 | 202,679,089 | 391,647,478 | 170,363,914 | 161,273,677 | 331,637,591 |
| Specific provision (Including IIS) | (3,777,621) | (1,237) | (3,778,844) | (3,676,786) | (3,083) | (3,679,869) |
| Total Net Advances | 333,515,256 | 210,477,752 | 543,993,008 | 301,037,976 | 164,802,449 | 465,840,425 |
| Total Inter bank exposures | 10,373,850 | - | 10,373,850 | 19,612,866 | - | 19,612,866 |
| Total invest (HTM) | 11,028,159 | - | 11,028,159 | 7,328,339 | - | 7,328,339 |

d) Analysis of residual contractual maturity of assets.

| Maturity bucket | (Rs. in 000s) | |
|---------------------|--------------------|-------------|
| | Loans and advances | Investments |
| 1-14 days | 37,591,032 | 37,307,806 |
| 15-28 days | 24,286,245 | 11,191,452 |
| 29 days – 3 months | 64,556,711 | 28,694,325 |
| 3 months – 6 months | 22,883,710 | 7,122,099 |
| 6 months – 1 year | 20,005,746 | 5,115,403 |
| 1 year – 3 years | 95,038,059 | 34,968,623 |
| 3 years – 5 years | 20,352,756 | 309,100 |
| Over 5 years | 48,800,997 | 2,568,630 |
| Total | 333,515,256 | 127,277,438 |

e) Details of Non Performing Assets (NPAs) -Gross and Net

| | (Rs. in 000s) | |
|---------------------------|---------------|---------------|
| | 31 March 2008 | 31 March 2007 |
| Substandard | 3,374,120 | 5,617,816 |
| Doubtful | 2,621,200 | 775,493 |
| -Doubtful 1 | 907,454 | 395,281 |
| -Doubtful 2 | 1,625,841 | 277,422 |
| -Doubtful 3 | 87,905 | 102,790 |
| Loss | 1,236,054 | 1,601,519 |
| Gross NPAs | 7,231,374 | 7,994,828 |
| Provisions (includes IIS) | 3,777,621 | 3,675,795 |
| Net NPAs | 3,453,753 | 4,319,033 |
| Cover ratio | 52.24% | 45.98% |

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Risk review and disclosures under Basel II Framework for the year ended 31st March 2008 (Continued)

g) NPA Ratios

| | 31 March 2008 | 31 March 2007 |
|------------------------------|---------------|---------------|
| Gross NPAs to gross advances | 2.14% | 2.62% |
| Net NPAs to net advances | 1.04% | 1.43% |

(i) Movement of NPAs (Gross) (Rs. in 000s)

| | 31 March 2008 | | 31 March 2007 | |
|--------------------------------|---------------|-------------|---------------|-------------|
| | Gross | Net | Gross | Net |
| Balance, beginning of the year | 7,994,828 | 4,319,033 | 6,838,098 | 3,789,502 |
| Additions during the year | 3,330,362 | 504,700 | 4,363,639 | 2,242,797 |
| Reductions during the year | (4,093,816) | (1,369,980) | (3,206,909) | (1,713,266) |
| Balance, end of the year | 7,231,374 | 3,453,753 | 7,994,828 | 4,319,033 |

(j) Movement of provisions for NPAs (Rs. in 000s)

| | 31 March 2008 | 31 March 2007 |
|---|---------------|---------------|
| Balance, beginning of the year | 2,395,909 | 1,900,199 |
| Add : Provisions during the year | 2,191,994 | 1,576,590 |
| Less : Utilisation/writeback of provisions no longer required | (1,909,479) | (1,080,880) |
| Balance, end of the year | 2,678,424 | 2,395,909 |

(k) Amount of Non-Performing Investments & (l) Amount of provisions held for non-performing investments (Rs. in 000s)

| | 31 March 2008 | 31 March 2007 |
|--|---------------|---------------|
| Balance, beginning of the year | 27,371 | 20,909 |
| Additions during the year | 11,701 | 26,096 |
| Reductions during the year | (1,780) | (19,634) |
| Balance, end of the year | 37,292 | 27,371 |
| Total provisions held at the end of the year | 37,292 | 27,371 |

(m) Movement of provisions for depreciation on investments (Rs. in 000s)

| | 31 March 2008 | 31 March 2007 |
|---|---------------|---------------|
| Balance, beginning of the year | 3,450,502 | 4,115,978 |
| Add : Provisions made during the year | 1,216,140 | 501,458 |
| Less : Write-off against provisions during the year | | (3,420) |
| Less : Write back of provisions during the year | (1,914,732) | (1,163,514) |
| Balance, end of the year | 2,751,910 | 3,450,502 |

Credit risk: Disclosures for portfolios subject to the standardised approach

As per the provisions of the Basel II Framework, all banks have to mandatorily adopt standardized approach for measurement of credit risk. This approach permits extensive use of external rating agencies for credit exposures to counterparties in the category of sovereigns, international banks, corporates, securitization exposures. The credit rating agencies used by us for these types of exposures are those are as under.

Domestic Credit Rating Agencies
CRISIL Limited
ICRA Limited

International Credit Rating Agencies
Moody's
Standard and Poors (S&P)

The process used to transfer public issue ratings onto comparable assets in the banking book is in accordance with the requirements laid down by RBI. The main requirements of the process are as follows:

- Unrated short term claims are risk weighted one notch higher than the risk weight applicable to the rated short term claim on that counterparty
- All claims on the counterparty are risk weighted at 150% in case any of the short term claim or long term exposure on the counterparty attracts 150% risk weight.
- Seniority of the claims are considered while applying the issue specific rating to other unrated claims i.e. it is ensured that unrated claim ranks 'Pari Passu' or senior to the rated claim.
- Collateral or security is not separately recognized if the issue specific rating has already factored in that aspect in the rating assigned.
- Benefit of issue specific rating is availed for unrated exposures of the same counterparty only if the currency of unrated exposure matches with that of the rated issue.

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Risk review and disclosures under Basel II Framework for the year ended 31st March 2008 (Continued)

Analysis of outstanding credit exposures (after considering credit mitigation) risk by regulatory risk weight

(Rs 000s)

| Nature & category of exposures | Total gross credit exposure | Credit risk mitigation | Net exposure (before provision) | Credit risk weight buckets summary | | | |
|---|-----------------------------|------------------------|---------------------------------|------------------------------------|--------------------|-------------------|------------------------|
| | | | | < 100% | 100% | > 100% | Deduction from capital |
| Inter bank exposures | 10,373,850 | - | 10,373,850 | 10,373,850 | - | - | - |
| Investments (HTM) | 11,028,159 | - | 11,028,159 | 2,904,778 | 8,123,381 | - | - |
| Advances | 337,292,877 | (1,678,124) | 335,614,743 | 56,271,635 | 205,492,196 | 73,850,922 | - |
| Total fund based exposures | 358,694,886 | (1,678,124) | 357,016,752 | 69,550,263 | 213,615,577 | 73,850,922 | - |
| Fx and derivative contracts | 262,052,572 | - | 262,052,572 | 200,799,633 | 61,252,939 | - | - |
| Guarantees, Acceptances, endorsements and other obligations | 138,325,104 | (334,245) | 137,990,859 | 52,499,158 | 81,740,643 | 3,751,058 | - |
| Undrawn Commitments and others | 51,795,146 | - | 51,795,146 | 38,087,047 | 13,514,298 | 193,801 | - |
| Total non fund based exposures | 452,172,822 | (334,245) | 451,838,577 | 291,385,838 | 156,507,880 | 3,944,859 | - |

Credit risk mitigation: disclosures for standardised approaches

Our credit risk mitigation techniques, apart from traditional practices of taking security of cash/other physical collaterals, include taking guarantees of high credit quality parties, avoidance of credit concentration in a single industry/counterparty, perfection of legal documentation, master netting agreements. Collateral types for credit risk mitigation include cash, residential and commercial and industrial properties; fixed assets such as motor vehicles, aircraft, plant and machinery; marketable securities; commodities; bank guarantees and letters of credit. The above collateral types are applicable to all customer segments including corporates and financial institutions, though exposures to banks are generally non collateralised. There are well laid down policies and processes for valuation/revaluation of collaterals covering source of valuation, independent professional valuations, hair cuts/margins on collateral market values, re-margining requirements and reassessment of credit limits. The frequency of collateral valuation is driven by the volatility in each class of collateral. The valuation of collateral is monitored and back tested regularly. In the case of WB, the BCA's provide details of credit facilities, and terms and conditions governing the security, margin, covenants, risk triggers and the documentation. The collateral security is inspected per facility agreement and is generally carried out on an annual basis. Charges are created on security where applicable. It is the bank's policy that no disbursements will be permitted until all documents are completed, executed, delivered and registered, if necessary. Any deviation or delay requires an approval from authorized Credit Officers. Documentation deferrals are tracked and reviewed on a monthly basis.

Guarantees taken can be categorised as follows;

- Guarantee from a bank (including central banks), insurance company credit wrap or surety bond which is repayable on demand
- Guarantee from a related corporate (including government owned commercial enterprises)
- Guarantee from an unconnected corporate.
- Guarantee from a government department or an entity classified as government risk (excluding those classified as banks or commercial enterprises)
- Guarantee or indemnity from a SCB group entity (subsidiary/associate or branch)
- Guarantee from one or more individuals

Concentration risk

Credit concentration risk in the Wholesale Banking portfolio is managed through the PMC, which is chaired by the Country Chief Risk Officer and comprises members of senior management from the Risk function and the business. Various concentration dimensions are assessed including industry sector, geographic spread, credit rating, customer segment and exposure to single counterparties or groups of related counterparties.

Credit concentration risk in the Consumer Banking portfolio is managed within exposure limits set for each product segment. These limits are reviewed at least annually and are approved by the responsible business and risk officer in accordance with their delegated authority level.

Securitisation: disclosure for standardised approach

- Securitisation transactions are undertaken generally with the objectives of credit risk transfers, liquidity management, meeting regulatory requirements such as capital adequacy, priority sector lending and asset portfolio management. The bank participates in both traditional securitization as well as synthetic securitizations. Further, the bank has played role of originator as well as investor. Generally, the bank has provided the credit enhancement services, liquidity facilities, interest rate derivative products and acts as a service provider only in case of securitizations where the bank has played the role of originator.

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Risk review and disclosures under Basel II Framework for the year ended 31st March 2008 (Continued)

Summary of the bank's accounting policies for securitisation activities

Refer note 18(D)(iv) of the financial statements.

Regulatory Capital Approach

As per the provisions of the Basel II Framework, all banks have to mandatorily adopt standardized approach for capital treatment of securitization transactions. This approach requires extensive use of external rating agencies for risk weighting securitisation exposures. The credit rating agencies used by us for these types of exposures are those recognised by RBI in paragraphs 6.1.2 & 6.1.3 of the RBI circular DBOD.No.BP.BC.90/20.06.001/2006-07 dated April 27, 2007.

Names of the credit rating agencies recognized are as under:

| Domestic Credit Rating Agencies | International Credit Rating Agencies |
|---|--------------------------------------|
| Credit Analysis and Research Limited (CARE) | FITCH |
| CRISIL Limited | Moody's |
| FITCH INDIA | Standard and Poors (S&P) |
| ICRA Limited | |

Quantitative Disclosures

| | (Rs. in 000s) | |
|--|----------------------------------|-------------------------|
| | For the year ended 31 March 2008 | |
| | Assets derecognised | Assets not derecognized |
| The total outstanding exposures securitised by the bank and subject to the securitisation framework by exposure type | | |
| - Mortgages | 5,317,895 | - |
| - Personal Loans | | - |
| - Corporate loans | 38,563,112 | - |

| For the year ended 31 March 2008 | |
|--|----------|
| For exposures securitised by the bank and subject to the securitization framework | |
| - amount of impaired/past due assets securitized* | |
| - losses recognised by the bank during the current period broken down by exposure type (Amount debited to P/L) | |
| - Mortgages | - |
| - Personal loans | - |
| - Corporate loans | (66,411) |

* amount represents outstanding as of reporting period.

| (Rs. in 000s) | |
|--|---------|
| As at 31 March 2008 | |
| Aggregate amount of securitization exposures retained or purchased | |
| - Credit risk in assets retained or purchased | - |
| - Credit enhancement | 962,620 |
| - Liquidity facilities | - |
| - Other interests/exposures | - |

Market risk in trading book

This note should be read in conjunction with the section on Risk exposures in derivatives in note 18(E)(vii)(o)(1) & (2) in financial statements.

We recognise the market risk as the exposure created by potential changes in market prices and rates. We are exposed to market risk arising principally from customer driven transactions. The objective of the Group's market risk policies and processes is to obtain the best balance of risk and return while meeting our customers' requirements.

Market risk within our Group is governed by the Group Risk Committee, which agrees groupwide policies and levels of risk appetite in terms of Value at Risk ("VaR"). The Group Market Risk Committee ("GMRC") provides market risk oversight and guidance on policy setting. Policies cover both trading and non-trading books of the Group.

Risk review and disclosures under Basel II Framework for the year ended 31st March 2008 (Continued)

At country level, there is an independent market risk function to implement group market risk policies/limits and to monitor the market risk exposures. Policies cover both trading and non-trading books of the Group. Limits for India location and portfolio are proposed by the businesses within the terms of agreed policy. Group Market Risk ("GMR") approves the limits within delegated authorities and monitors exposures against these limits. Additional limits are placed on specific instruments and currency concentrations where appropriate.

Sensitivity measures are used in addition to VaR as risk management tools. For example, interest rate sensitivity is measured in terms of exposure to a 'one basis point' increase in yields, whereas foreign exchange, commodity and equity sensitivities are measured in terms of the underlying values or amounts involved. Option risks are controlled through revaluation limits on currency and volatility shifts, limits on volatility risk by currency pair and other variables that determine the options' value.

Value at Risk (VaR)

We measure the risk of losses arising from future potential adverse movements in interest and exchange rates, prices and volatilities using a VaR methodology.

VaR is calculated for expected movements over a minimum of one business day and to a confidence level of 97.5 per cent. This confidence level suggests that potential daily losses, in excess of the VaR measure, are likely to be experienced six times per year.

We use historic simulation as its VaR methodology with an observation period of one year. Historic simulation involves the revaluation of all contracts which have not matured to reflect the effect of historically observed changes in market risk factors on the valuation of the current portfolio.

VAR models are back tested against actual results to ensure pre-determined levels of statistical accuracy are maintained.

We recognise that there are limitations to the VaR methodology including the possibility that the historical data may not be the best proxy for future price movements.

Losses beyond the confidence interval are not captured by a VaR calculation, which therefore gives no indication of the size of unexpected losses in these situations.

GMR, therefore, complements the VaR measurement by regularly stress testing market risk exposures to highlight potential risk that may arise from extreme market events that are rare but plausible.

Stress testing is an integral part of the market risk management framework and considers both historical market events and forward looking scenarios. Ad hoc scenarios are also prepared reflecting specific market conditions. A consistent stress testing methodology is applied to trading and non-trading books.

Stress scenarios are regularly updated to reflect changes in risk profile and economic events. GMRC has responsibility for reviewing stress exposures and, where necessary, enforcing reductions in overall market risk exposure. GRC considers stress testing results as part of its supervision of risk appetite.

The stress test methodology assumes that management action would be limited during a stress event, reflecting the decrease in liquidity that often occurs.

Foreign Exchange Exposure

The foreign exchange exposures comprise trading and non-trading foreign currency translation exposures.

Foreign exchange trading exposures are principally derived from customer driven transactions.

Interest Rate Exposure

The interest rate exposures arise from trading and non trading activities.

Structural interest rate risk arises from the differing re-pricing characteristics of commercial banking assets and liabilities.

Derivatives

Derivatives are financial contracts which derive characteristics and value from underlying financial instruments, interest and exchange rates or indices. They include futures, forwards, swaps and options transactions in the foreign exchange, credit and interest rate markets. Derivatives are an important risk management tool for banks and their customers because they can be used to manage the risk of price, interest rate and exchange rate movements.

Our derivative transactions are principally in instruments where the mark-to-market values are readily determinable by reference to independent prices and valuation quotes or by using standard industry pricing models.

We enter into derivative contracts in the normal course of business to meet customer requirements and to manage own exposure to fluctuations in interest, credit and exchange rates. Derivatives are carried at fair value and shown in the balance sheet as separate assets and liabilities. Recognition of fair value gains and losses depends on whether the derivatives are classified as trading or for hedging purposes.

We apply the future exposure methodology to manage counterparty credit exposure associated with derivative transactions.

Refer section on capital structure and adequacy on page for details of capital requirements for key market risk components.

Standard Chartered Bank-India Branches
(Incorporated in the United Kingdom with limited liability)

Risk review and disclosures under Basel II Framework for the year ended 31st March 2008 (Continued)

Operational Risk

Operational risk is the risk of direct or indirect loss due to an event or action resulting from the failure of internal processes, people and systems, or from external events. Our Group seeks to ensure that key operational risks are managed in a timely and effective manner through a framework of policies, procedures and tools to identify, assess, monitor, control and report such risks.

A 'Country Operational Risk' function, independent from the businesses, is responsible for establishing and maintaining the overall operational risk framework, and for monitoring the country's key operational risk exposures. This unit is supported by Operational Risk units within business segments and support functions. These units are responsible for ensuring compliance with policies and procedures in the business, monitoring key operational risk exposures, and the provision of guidance to the respective business areas on operational risk.

Compliance with operational risk policies and procedures is the responsibility of all managers. Country Operational Risk Assurance Manager's (CORAM) role is to drive the consistent adoption of the Operational Risk Management and Assurance framework in-country and provide independent assurance of compliance by the Businesses and Functions with legal, regulatory and internal policy obligations in-country.

There is a robust operational risk management and assurance framework (ORMAF), the core component of which is risk management. There are four steps in this ORMAF process.

- Risk identification i.e. identification of exposures and events that could impact the bank and the key inputs through steps are key control standard assessments (KCSAs), Key Risk Indicators (KRIs), Loss data bases, quality assurance reviews etc.
- Risk Assessment ie. Once identified the risk is measured into high, medium and low risk using a standard operational risk grading matrix which considers probability of occurrence of the event and its impact if given the occurrence.
- Risk mitigation and control i.e. this requires selection of one of the four options accept risk within limit, reduce, transfer or avoid it.
- Risk monitoring i.e. on-going monitoring and assessment of the risk.

Our qualitative standards are aimed at meeting the requirements of advanced measurement approaches under the Basel II Framework, though we may not necessarily adopt the same for regulatory capital purposes.

Interest rate risk in the banking book (IRRBB)

The Bank applies a fund transfer pricing policy whereby all interest rate risk in the banking book is effectively transferred to the Asset and Liability Management ("ALM") desk of Global Markets for management, with ALCO oversight. VaR and stress results are used to assess the interest rate risk in the banking book as well.

The ALM uses derivatives, where necessary, to hedge the interest rate risk in the banking book whether or not hedge accounting is achieved. In particular, interest rate swaps are used to manage interest rate risk.

Refer Market risk in trading book section for more details on VaR methodology and its use.

The table below shows the extent to which the entity's interest rate exposures on assets and liabilities are matched.

Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and the maturity date.

(Rs 000s)

| | Three months or less | Between three and six months | Between six months and one year | Between one and five years | More than five years | Non Interest Sensitive | Total |
|----------------------------------|-------------------------|------------------------------------|---------------------------------------|----------------------------------|-------------------------|---------------------------|--------------------|
| Assets | | | | | | | |
| Cash & balances with RBI | - | - | - | - | - | 46,310,960 | 46,310,960 |
| Balances with other banks | 4,748,658 | - | - | - | - | 5,625,192 | 10,373,850 |
| Investments | 7,790,722 | 31,224,901 | 35,519,595 | 45,049,161 | 8,107,740 | 180,458 | 127,872,577 |
| Advances | 126,433,988 | 22,883,710 | 20,005,746 | 115,390,815 | 48,800,997 | - | 333,515,256 |
| Fixed assets | - | - | - | - | - | 17,232,886 | 17,232,886 |
| Other assets | - | - | - | - | - | 199,146,910 | 199,146,910 |
| Total assets | 138,973,368 | 54,108,611 | 55,525,341 | 160,439,976 | 56,908,737 | 268,496,406 | 734,452,439 |
| Liabilities | | | | | | | |
| Deposits | 142,002,700 | 83,558,237 | 18,095,242 | 8,381,763 | 150,645 | 117,376,636 | 369,565,223 |
| Borrowings | 64,071,010 | 5,505,360 | 401,200 | - | - | - | 69,977,570 |
| Other liabilities and provisions | - | 10,030,000 | - | - | - | 201,179,272 | 211,209,272 |
| Total liabilities | 206,073,710 | 99,093,597 | 18,496,442 | 8,381,763 | 150,645 | 318,555,908 | 650,752,065 |

Other risks

Liquidity Risk

We define liquidity risk as the risk that we either do not have sufficient financial resources available to meet all our obligations and commitments as they fall due, or can access them only at excessive cost.

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Risk review and disclosures under Basel II Framework for the year ended 31st March 2008 (Continued)

It is the policy of our Group to maintain adequate liquidity at all times, in all geographical locations and for all currencies. Hence the Group aims to be in a position to meet all obligations, to repay depositors, to fulfill commitments to lend and to meet any other commitments.

Liquidity risk management is governed by Country ALCO, which is chaired by the CEO. Country ALCO is responsible for both statutory and prudential liquidity. These responsibilities are managed through the provision of authorities, policies and procedures that are co-ordinated by the Liquidity Management Committee (“LMC”) with the support, guidance and oversight by Country ALCO and GALCO.

Country ALCO is responsible for ensuring that the country is self-sufficient and is able to meet all its obligations to make payments as they fall due. Country ALCO has primary responsibility for compliance with local regulations and Group policy and maintaining a country liquidity crisis contingency plan.

A substantial portion of the assets are funded by customer deposits made up of current and savings accounts and other deposits. These customer deposits, which are widely diversified by type and maturity, represent a stable source of funds. Lending is normally funded by liabilities in the same currency.

We also maintain significant levels of marketable securities either for compliance with local statutory requirements or as prudential investments of surplus funds.

There are internal limits and ratios for borrowing, capital etc and compliance with these ratios is monitored locally by Country ALCO and centrally by Group Treasury.

Compliance and Regulatory Risk

Compliance and Regulatory risk includes the risk of noncompliance with regulatory requirements both in-country regulator and home regulator. The Regional Compliance and Regulatory Risk function is responsible for implementing and monitoring of compliance with Group compliance policies and procedures established by the Group Compliance and Regulatory function and also responsible for establishing and maintaining local compliance framework. Compliance with such policies and procedures is the responsibility of all managers.

Legal Risk

Legal risk is the risk of unexpected loss, including reputational loss, arising from defective transactions or contracts, claims being made or some other event resulting in a liability or other loss for the Group, failure to protect the title to and ability to control the rights to assets of the Group (including intellectual property rights), changes in the law or jurisdictional risk. The Group manages legal risk through the Group Legal Risk Committee, Legal Risk policies and procedures and effective use of its internal and external lawyers.

Reputational Risk

Reputational risk is any material adverse effect on the relations between the Group and any one of its significant stakeholders. It is Group policy that the protection of the Group’s reputation should take priority over all activities including revenue generate on at all times.

Reputational risk is not a primary risk, but will arise from the failure to effectively mitigate one or more of country, credit, liquidity, market, legal and regulatory and operational risk. It may also arise from the failure to comply with Social, Environmental and Ethical standards. All staff are responsible for day to day identification and management of reputational risk.

At a country level, the Country CEO is responsible for the Group’s reputation in their market. The Country CEO and their Management Committee must actively:

- promote awareness and application of the Group’s policy and procedures regarding reputational risk;
- encourage business and functions to take account of the Group’s reputation in all decision making, including dealings with customers and suppliers;
- implement effective functioning of the in country reporting system to ensure their management committee is alerted of all potential issues; and
- promote effective, proactive stakeholder management.

The Group Reputational Risk and Responsibility Committee (“GRRRC”) has oversight responsibility in respect of the monitoring compliance with the above. A critical element of the role of the GRRRC is to act as radar for the Group in relation to the identification of emerging or thematic risks. The GRRRC also ensures that effective risk monitoring is in place for Reputational Risk and reviews mitigation plans for significant risks.

Monitoring

Monitoring of the risk management is achieved thru independent reviews and audits by Group Internal Audit, Business Risk Reviews and compliance assurance functions and also by concurrent audits, spot checks by the external specialists required under regulations. Group Internal Audit function that reports to the Group Chief Executive and the Group Audit & Risk Committee.