ICBC 中国工商银行 孟买分行

2013-2014
BASEL III

INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED

MUMBAI BRANCH

1. Scope of Application

Qualitative Disclosures:

(a) The capital Adequacy framework is applicable to Industrial and Commercial Bank of China Limited Mumbai branch.

(b) ICBC Mumbai Branch is the single branch operational in India.

Quantitative Disclosures:

(c) 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**

(d) The aggregate amounts 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: The Bank does not have interests in any insurance entities: **NIL**

2. Capital Structure:

Qualitative Disclosures:

(a) Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of capital instruments eligible for inclusion in Tier I or in Upper Tier II:

- Tier I capital: - consists of funds from H.O. for the purpose of meeting capital adequacy norms & statutory reserves minus deferred tax asset.

- Tier II capital comprises of general loan loss provisions on standard assets.

Qualitative Disclosures

(b) Capital structure:

(Rs. '000)

Particulars	**2013-14**
Funds from H.O.	4,554,480
Reserves	494,599
Total- Tier I	5,042,091
Provision for Standard Assets	21,876
Provision for Country Risk	2,381
Total – Tier II	24,257
Total Eligible Capital	5,066,348

3. Capital Adequacy:

Qualitative disclosures:

The Bank has a well-defined Internal Capital Adequacy Assessment Process (ICAAP) which covers methodology and detailed information on the on-going assessment of the Bank's key risks, measurement and mitigation of risks. It also provides an overview of the current and future capital requirements of the Bank based on growth projections and assessment of these risks. The focus of the ICAAP includes the Bank's capital planning, assessment and management of material risks and adequacy of capital under normal and stress conditions. The management and the functional departments/business units are actively involved in the identification of the sources of risk and the review of mitigations/controls in place.

Capital is the amount held or required to be held by the Bank to underpin the risk of loss in value of exposure, businesses etc. so as to protect the depositors and general creditors against losses. Capital funds are broadly classified as Tier I and Tier II Capital.

Quantitative disclosures:

The Capital requirement for credit, market and operational risk and Tier I capital ratio of the Bank as on 31st March 2014 is as follows:

(Rs '000)

	PARTICULARS	2013-14
A	**Capital requirement for credit risk**	
	- Portfolios subject to standardised approach	863,196
	- Securitisation exposures	-
B	**Capital requirement for market risk**	
	Standardised duration approach	
	-Interest rate risk	2,284
	-Foreign exchange risk	8,455
	-Equity risk	-
C	**Capital requirement for operational risk**	
	-Basic indicator approach	78,609
D	**Capital Adequacy ratio of the Bank (%)**	**47.87%**
E	**Tier I CRAR (%)**	**47.64%**

General Disclosures:

Risk Exposure and Assessment

The Bank is exposed to various risks such as credit risk, market risk, operational risk, Concentration Risk, Liquidity Risk, Interest Rate Risk, Reputation Risk, Strategic Risk, Compliance Risk, Legal Risk and Country Risk and the methodologies adopted for their identification, assessment, measurement, monitoring and control is envisaged in the ICAAP and various risk management policies of the Bank.

The Senior Management undertakes an annual assessment to ascertain whether the processes relating to the ICAAP implemented by the Bank successfully achieve the objectives. The senior management also receives and reviews the reports regularly to evaluate the sensitivity of the key assumptions and to assess the validity of the Bank's estimated future capital requirements. In the light of such an assessment, appropriate changes in the ICAAP are instituted to ensure that the underlying objectives are met.

Risk Management / Risk Management Committee

Bank has in place risk management and measurement systems for analysing the risk in loans and investments and instituted timely remedial measures through Risk Management Committee (RMC).

The RMC regularly oversees the Bank's risk management policies/practices under various risks viz. credit, operational and market risk etc. This committee comprises of top executives of Bank. The committee meets at regular intervals throughout the year to assess and monitor the level of risk under various Bank operations and initiate appropriate mitigation measures wherever necessary.

4. Credit Risk:

Qualitative disclosures:

Credit risk is defined as the inability of a borrower or counter-party to honour commitments under an agreement/contract, in relation to lending, trading, settlement and other financial transactions. Bank has fixed various exposure limits approved by the appropriate authority. These limits are being monitored on a regular basis.

Bank has a comprehensive credit manual for managing the credit risk. The credit manual aims to set a consistent framework and procedures to manage credit risk across the Bank and to take a well-balanced approach to risks and business opportunities. The manual serves as a practical guide and a common source of reference to the management and staff involved in lending activities of the Bank. The manual provides the information necessary to enable employees in credit business to carry out their duties with due care, efficiency, levels of control, cost effectiveness required by the management of the Bank and to reflect prevailing policies, practices, procedures and regulations.

Structure and Organization

The credit responsibilities are divided between the Marketing and Risk Management Departments. Marketing Department functions as front Office. Risk Management Department functions as the Middle and Back Office. The role of marketing and risk management are performed independently by separate individuals to avoid potential conflicts of interest and to gain a fair and objective view on the risks that the Bank is undertaking.

In addition, Credit Review Committee is a key part of credit organization structure. The Bank establishes the Credit Review Committee with a view to achieving a standard management of credit business. The Credit Review Committee making conclusion is served as a reference for General Manager to make final decision.

Non-Performing Asset (NPA)

An asset, including a leased asset, becomes non-performing when it ceases to generate income for the Bank. A non-performing asset (NPA) is a loan or an advance where:

- Interest and/ or installment of principal remain overdue for a period of more than 90 days in respect of a term loan,
- The account remains 'out of order', in respect of an Overdraft/Cash Credit (OD/CC),
- The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,
- The installment of principal or interest thereon remains overdue for two crop seasons for short duration crops,
- The installment of principal or interest thereon remains overdue for one crop season for long duration crops,
- The amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitization transaction undertaken in terms of guidelines on securitization dated February 1, 2006.
- In respect of derivative transactions, the overdue receivables representing positive mark-to-market value

of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment.

'Out of Order' Status – An account should be treated as 'out of order' if the outstanding balance remains continuously in excess of the sanctioned limit/ drawing power. In cases where the outstanding balance in the principal operating account is less than the sanctioned limit/ drawing power, but there are no credits continuously for 90 days as on the date of Balance Sheet or credits are not enough to cover the interest debited during the same period, these accounts should be treated as 'out of order'

'Overdue' – Any amount due to the Bank under any credit facility is 'overdue' if it is not paid on the due date fixed by the Bank.

Credit Rating System

Credit rating represents the best estimate of the probability of default of the customer being graded in a span of one year. Bank has an internal credit rating system to assign credit ratings to the corporate customers. These grades act as a tool for determining the risk of customer and are also used for determining the pricing for the customer. All customers are assigned a credit grade based on the different risk parameters in the system. The credit rating system uses a combination of quantitative inputs and qualitative inputs to arrive at a credit rating.

Monitoring & Review

The periodic review of individual customer is a part of the post-lending management process. The Bank has set up a regular monitoring mechanism at the portfolio, customer and transaction level. Marketing department is responsible for monitoring credit risk at customer or transaction level. Risk Management Department is responsible for monitoring credit risk at portfolio level.

Concentration Risk

As a prudential measure aimed at better risk management and avoidance of concentration of credit risks, Bank has fixed limits on its exposure to specific industry or sectors and has prescribed regulatory limits on Bank's exposure to individual and group borrowers etc. The Bank avoids undue concentration of risk to a single sector, industry, region or large borrower/ connected group. Credit exposures to various segments of industry should meet the business objectives and portfolio targets of the Bank. These limits are reviewed and revised annually based on capital funds as of March of the previous financial year.

Quantitative disclosures:

Total Gross credit risk exposures including Geographic Distribution of Exposure

(INR '000)

Particulars	**2013-14**		
	Domestic	**Overseas**	**Total**
Fund Based	4,356,264	-	4,356,264
Non Fund Based *	4,256,146	-	4,256,146
Total	8,612,410	-	8,612,410

* Amount represents non- funded exposure after applying credit conversion factor.

Industries wise exposure:

(INR ‘000)

		2013-14	
Sr. No.	**Type of the Industries**	**Fund Based**	**Non Fund Based***
	Banking	4,406	4,055,095
	Chemicals	165,000	
	Manufacturing	50,000	134,340
	NBFC	1,170,000	-
	Pharmaceuticals	599,500	-
	Power	1,074,600	-
	Real estate	741,818	-
	Telecommunication	-	66,711
	Textile	432,959	-
	Trading	117,981	-
	Total	**4,356,264**	**4,256,146**

* Amount represents non- funded exposure after applying credit conversion factor.

Residual Contractual maturity breaks down of Assets

(INR ‘000)

MATURITY BUCKETS	**Cash, balances with RBI and other Banks**	**Investment Securities**	**Loans and Advances**	**Other Assets including fixed assets**
Next Day	256,405	-	-	-
2 TO 7 Days	1,619,950	-	-	2,141
8 TO 14 Days	1,156,252	-		51,528
15 to 28 days	179,850	-		
29 days to 3 months	10	1,377,379	776,460	22,776
Over 3 months upto 6 months	-	-	328,886	25,782
over 6 months upto 12 months	-	-	814,500	
Over 1 year to 3 years	-	-	620,000	
Over 3 years to 5 years	-	-	741,818	
Over 5 years	-	-	1,074,600	28,144
Total	**3,212,468**	**1,377,379**	**4,356,264**	**130,371**

Movement of NPA's and Provision for NPA's

Gross NPAs in various categories (Sub standard, doubtful, loss etc:

(INR '000)

	Particulars	**2013-14**
A	Amount of NPA's (Gross)	-
B	Net NPA's	-
C	NPA's ratios	-
	Gross NPAs to gross advances	-
	Net NPAs to net advances	-
D	Movement of NPA's	-
	Opening Balance	-
	Additions	-
	Reductions	-
	Closing Balance	-
E	Movement of Provision for NPA's	-
	Opening Balance	-
	Provision made during the year	-
	Write offs	-
	Write back of excess provision	-
	Closing balance	-
F	Amount of Non performing investments and Provisions	-
	Amount of provisions held for Non performing investments	-
G	Movement of provisions for depreciation on investment	-
	Opening Balance	-
	Add: Provision made during the year	-
	Less: Write back of excess provisions	-
	Add: Amortisation of premium on HTM category	-
	Closing balance	-

5. Disclosures of portfolios under the Standardised Approach:

Qualitative Disclosures:

Bank uses the credit ratings of the eligible credit rating agencies, for assigning risk weights for credit risk as per the guidelines of the Reserve Bank of India. The facility provided by the Bank possesses rating assigned by an eligible credit rating agency; the risk weight of the claim is based on these ratings.

In accordance with the principles laid down in the Revised Framework from the Reserve Bank of India, Banks uses the ratings of the following domestic credit rating agencies for the purposes of risk weighting its domestic claims for capital adequacy purposes:
a) Credit Analysis and Research Limited;
b) CRISIL Limited;

c) FITCH India;
d) ICRA Limited; and
e) Brickwork Ratings India Pvt. Limited (Brickwork)

As per the guidelines from the Reserve Bank of India, Bank uses the ratings of the following international credit rating agencies for the purposes of risk weighting its international claims for capital adequacy purposes:
a. Fitch;
b. Moody's; and
c. Standard & Poor’s

The transfer of public issue ratings onto comparable assets in the Banking Book is in line with the provisions advised in Reserve Bank of India’s Master circular on New Capital Adequacy Framework.

Quantitative Disclosures:

The exposure under each credit risk category is as follows:

(INR ‘000)

Risk Bucket	2013-14
Below 100% Risk Weight	5,928,071
100% risk weight	10,531,288
More than 100% risk weight	1,708,680

6. Credit Risk Mitigation:

Credit Risk Mitigation (CRM) allows the eligible credit risk mitigants to be recognised for regulatory capital purposes. Eligible credit risk mitigants like financial collateral, non-financial collateral and guarantees, are used to mitigate credit risk exposure. Bank recognises only those collaterals that are considered as eligible for credit risk mitigation in RBI guidelines.

7. Securitisation:

Qualitative and Quantitative disclosures:

The Bank does not have any Securitisation Exposure.

8. Market Risks in the trading book

Market risk is defined as the risk of losses in on-balance sheet and off-balance sheet positions arising from movements in market prices. Market Risk Management include a well-drawn Market Risk Management policy, various risk limits identification, measurement monitoring control and mitigation of market risk in trading book. ALCO monitors all the risk limits periodically and manages the issues relating to market risk management.

The Bank does not trade in securities. Banks deals in securities only to maintain the SLR requirement as per RBI guidelines.

Currently Bank uses standardized duration method to arrive at the capital charge for Market Risk.

9. Operational Risk:

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk.

The Bank has a management approved operational risk management policy in place The purpose of this policy is to establish explicit and consistent Operational Risk Management framework that would result in the systematic and proactive identification, assessment, measurement, monitoring, mitigation and reporting of the operational risks. The operational processes are well documented and laid down and all the transactions adhere to the processes and are reconciled and monitored systematically.

The Bank uses Basic Indicator Approach for calculating capital charge for Operational Risk.

10. Interest Rate Risk in the Banking Books (IRRBB)

Interest rate risk is the potential change in Net Interest Income or Economic Value of Equity caused by unexpected changes in market interest rates.

Qualitative Disclosures

Interest Rate Risk:

Interest rate risk is the risk due to variability of interest rates. The various types of interest rate risk are Reinvestment Risk, Gap/ Mismatch Risk, Basis Risk, Embedded Option Risk, Yield-curve Risk and Model Risk.

The Bank strives to achieve a balance between reducing risk to earnings from adverse movements in interest rates, and enhancing net interest income through correct anticipation of the direction and extent on interest rate changes. IRRBB is measured and controlled using both Earnings Perspective (Traditional Gap Analysis) and Economic Value Perspective (Duration Gap Analysis). The Bank performs Duration Gap Analysis and Traditional Gap Analysis as per the RBI Guidelines on monthly basis for managing the interest rate risk. The Duration Gap analysis analyzes the impact of 100 bps change in the interest rates on the Net worth for the Bank. Traditional Gap Analysis analyzes the impact of 100 bps change in the interest rates on the Earnings.

Bank also performs periodic stress test on interest rate risk in order to analyze the impact of stress due to adverse movement in the interest rates and its impact on Bank's earnings.

After review of the current situation of IRRBB, the ALCO devise various strategies to minimize the interest rate risk while maximizing earnings and net worth.

Quantitative Disclosures:

Impact of increase (decline) in earnings and economic value for upward and downward interest rate shocks of 1% as on 31 March, 2014 are given below:

Earnings Perspective

Particulars	Interest Rate Shock	
	1%	-1%
Impact on Earnings (INR '000)	48,094	(48,094)

Economic Value Perspective

Particulars	Interest Rate Shock	
	1%	-1%
Impact on Net Worth (INR '000)	68,653	(68,653)