

**DISCLOSURES UNDER PILLAR-3-MARKET DISCIPLINE OF BASEL-III-
CAPITAL REGULATIONS FOR THE YEAR ENDED JUNE 30, 2017**

**Table DF-2
Capital Adequacy:**

Qualitative disclosures

a. Bank's approach to assessing the adequacy of its capital to support current and future activities:

The Bank maintains a strong base of capital to comply with the local regulatory requirements and also to adequately support its current and future activities.

The Internal Capital Adequacy Assessment Process conducted and documented through ICAAP, details the business plans of the bank and assessment of requirement/adequacy of capital for future years, under the normal and stressed conditions.

Quantitative Disclosures:

Capital requirement* for credit, market and operational risk and Common Equity Tier I capital ratio as on June 30, 2017 is detailed as below: -

(Rs. in millions)

	Particulars	Amount
b	Capital requirement for credit risk	11,506.21
	- Portfolios subject to standardised approach	11472.19
	- Securitisation exposures	34.02
c	Capital requirement for market risk	389.21
	Standardised duration approach	
	-Interest rate risk	318.33
	-Foreign exchange risk	70.88
	-Equity risk	0.00
d	Capital requirement for operational risk	
	-Basic indicator approach	571.51
e	Common Equity Tier-I, Tier-II and Total capital ratios:	
	-For the top consolidated group	CET- Tier 1 Capital Ratio 27.26%
	-For significant bank subsidiaries (stand alone or sub-consolidated depending on how the Framework is applied)	Total Capital Ratio- 27.68% The bank is operating with two branches in India.

*Capital requirement calculated at 9.00% excluding 1.25% for Capital Conservation Buffer

2. Risk Exposure and Assessment

General qualitative disclosure on risk area, risk management objectives, policies and processes etc.

The Bank has identified the following risks as material to its nature of operations:

- ▶ Credit Risk (including credit concentration risk)
- ▶ Market Risk
- ▶ Operational Risk
- ▶ Liquidity Risk
- ▶ Interest Rate Risk in the Banking Book

Risk Management framework

Overview

The Bank's risk management framework is embedded in the business through the different levels supported by an appropriate level of investment in information technology and its people.

Credit Risk

Credit risk refers to risk of any losses the Bank may incur due to reduction or loss of the value of assets (including off balance-sheet assets) arising from any credit events such as deterioration of borrowers' financial standing. The purpose of credit-risk management is to maintain the soundness of the Bank's assets by controlling credit risk at acceptable levels relative to the amount of Capital so as to manage the risk at acceptable levels and to contribute to the interests of stakeholders by realizing the establishment of a credit portfolio with high capital and asset efficiency by securing appropriate levels of profits corresponding to risk.

The SMBC Head Office formulates policies, rules and procedures for SMBC branches worldwide. The Branch has put in place credit policy for local operations in line with SMBC guidelines as well as the RBI circulars, guidelines, notifications and directives. The credit policy stipulates guidelines for adherence to prudential limits as well as outlines RBI directives in the form of master circulars / directions. The credit policy for local operations is reviewed periodically to accommodate RBI directions. The Bank's has an independent committee for evaluation of credit proposals. The Bank also has an elaborate stress test policy for credit risk and subject the portfolio periodically to the shocks as prescribed. The Bank has a comprehensive credit risk framework to manage Credit Risk, in a uniform and consistent manner.

The bank on a regular basis monitors the portfolio in terms of growth, quality and concentration, subjects the credit portfolio to stress test by way of sensitivity (single and multiple factor) and scenario analysis. The Bank has also established an Early Warning Framework for identification of any incipient sickness in the borrower account at an early stage. Further, the Bank also extensively uses Central Repository of Information on Large Credits (CRILC), Credit Information Companies (CIC) and Central Fraud Reporting platforms while undertaking credit assessment.

Market Risk / Liquidity Risk

Market risk is the risk whereby movements in market factors such as foreign exchange rates, interest rates and equity prices reduce our income or the market value of our portfolios. Exposure to market risk is mainly classified into structural banking books. SMBC India Branches

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Policies on Market risk and Liquidity Risk have been put in place to cater to HO Guidelines and Local Regulatory guidelines.

Market Risk on the portfolio is assessed and managed through measures such as price value of one basis point, value-at-risk, stop loss and net overnight open position limits. The risk associated with our banking book is also measured through metrics such as duration of equity, earnings at risk and liquidity gap limits. The limits are stipulated in our Investment Policy, Asset Liability Management Policy and Derivatives Policy which are reviewed and approved by local Management Committee (MC).

The Asset Liability Management Committee (ALM Committee) comprises senior management and senior executives. ALM meets periodically and reviews the Bank's business profile and its impact on asset liability management and determines the asset liability management strategy in light of the current and expected business environment. ALM reviews the overall portfolio position and the interest rate and liquidity gap positions on the banking book. ALM also sets deposit and benchmark lending rates. The Market Risk Management Team in consultation with TRD recommends changes in risk policies and controls and the processes and methodologies for quantifying and assessing market risks. Risk limits including position limits and stop loss limits are monitored by the TRD and MRM and reviewed periodically. Foreign exchange risk is monitored through the net overnight open position limit. Interest rate risk is measured through the use of re-pricing gap analysis and duration analysis. Interest rate risk is further monitored through interest rate risk limits approved by ALM.

The Bank uses various tools for measurement of liquidity risk including the statement of structural liquidity, dynamic liquidity gap statements, liquidity ratios and stress testing. Our Bank maintains diverse sources of liquidity to facilitate flexibility in meeting funding requirements.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. Operational risk includes legal risk but excludes strategic and reputational risks. Operational risk is inherent in the Bank's business activities in both domestic as well as overseas operations and covers a wide spectrum of issues. Operational risk can result from a variety of factors, including failure to obtain proper internal authorizations, improperly documented transactions, failure of operational and information security procedures, computer systems, software or equipment, fraud, inadequate training and employee clerical errors.

Operational risk in the Branch is managed through comprehensive HO rules and SMBC India Branches branch procedures of internal controls, systems and procedures to monitor transactions, key backup procedures and undertaking regular contingency planning. The control framework is designed based on categorization of functions into front-office comprising business groups, middle office comprising credit and treasury middle offices, back-office comprising operations, Finance and Accounting Department (FAD), General Affairs Section (GAS) function.

The Bank's operational risk management governance and framework is defined in the Risk Management Charter approved by Planning Department-Asia Pacific Division (PDAPD) and local management committee. The Policy is applicable across all the functions in the branch ensuring a clear accountability and responsibility for management and mitigation of operational

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risk, developing a common understanding of operational risk and helping the business and operation groups to improve internal controls, thereby reducing the probability of an Operational Risk event.

The Risk Management Committee (RMC) at the Bank, represented by Senior Management of the Bank along with members of the credit risk, treasury, operations, information technology and other critical departments; meets regularly to examine and evaluate the risk profile of the Bank. The coverage includes all the material risks envisaged by the bank both Pillar I as well as Pillar II Risks as per RBI / Basel Guidelines. The RMC adopts pro-active approach towards mitigating the risk in order to ensure smooth banking operations.

Table DF-3
Credit risk: General Disclosures

Qualitative Disclosures

a. Credit quality of Loans and Advances

Even though the Bank is following Standardisation Approach, yet the Bank has an established internal credit rating system that facilitates decision making by taking into account quantitative and qualitative aspects of the proposal for credit facilities. The credit rating system analyses the inherent risk relating to facility as well as the borrower and assigns a rating that is indicative of risk profiling of the proposal.

The monitoring of the portfolio is undertaken at regular intervals and results of the analysis are presented to Management Committee and Risk Management Committee. The portfolio analysis is undertaken to estimate credit concentration, asset growth, geographical spread as well as adherence to prudential norms such as Sectoral limits, Single borrower, Group borrower limits etc.

All loans and advances in the Bank are classified according to asset quality, nature and number of days in arrears in accordance with RBI guidelines

Non-Performing Assets (NPA)

Bank has adopted the definitions of 'past due' and 'impaired' (for accounting purposes) as defined by the regulatory authority for Income Recognition and Asset Classification. An account becomes NPA if it remains overdue for a certain period as defined by the Reserve Bank of India. An impaired asset is an asset which has been classified as such in accordance with the guidelines defined by the Reserve Bank of India on its becoming a NPA.

Quantitative Disclosures

b. Total Gross credit risk exposures, Fund based and Non-fund based separately

- Fund Based- INR 74,972.21 Million (Excluding exposure to QCCP)
- Non Fund Based- INR 25,017.83 Million (Excluding exposure to QCCP)

c. Geographical distribution of exposures, Fund based and Non-fund based separately

(Rs. in millions)

Particulars	June-17		
	Domestic	Overseas	Total
Fund Based	74,972.21	Nil	74972.21
Non Fund Based	25,017.83	Nil	25,017.83
Total	99,990.04	Nil	99,990.04

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d. Industry type distribution of exposures, fund based and non-fund based separately*.

(Rs. in millions)

Industry	Funded Exposure	Non-Funded Exposure
Food Processing - Others	15.00	--
Chemical & Chemical Products	15,408.21	822.07
Rubber, Plastic & their products	--	--
Cement & Cement Products	--	2,500.00
Basic Metal & Metal Products	393.00	55.11
Engineering- Electronics	824.92	129.59
Engineering- Others	3,067.75	1,685.97
Vehicle, Parts & Transport Equipment's	10,533.43	568.03
Construction	--	122.50
Infrastructure	--	662.21
- Electricity	--	662.21
- Gas/LNG	--	--
- Telecommunication	--	--
Other Industries (including services)	36,462.53	18,472.35
Residual Exposures	6,377.26	--
- of which Other Assets(including DTA)	207.68	--
- of which claim on RBI	4,766.12	--
Securitization Exposure	1,890.11	--
TOTAL	74,972.21	25,017.83

*On outstanding basis and excluding exposure to QCCP

e. Residual Contractual maturity break down of Assets

(Rs. in millions)

MATURITY BUCKETS	Investments*	Loans and Advances	Foreign Currency Assets
Next Day	--	115.37	347.71
2 TO 7 Days	--	20,335.94	322.90
8 TO 14 Days	5,988.19	3,305.44	774.96
15 to 30 Days	68.36	4,925.78	3,727.62
31 days to 2 months	69.40	1,701.75	14.55
Over 2 months upto 3 months	2,928.53	8,537.84	1,632.50
Over 3 months upto 6 months	15,494.99	9,820.23	8,046.67
over 6 months upto 12 months	7,579.52	10,771.26	--
Over 1 year to 3 years	987.90	4,257.79	--
Over 3 years to 5 years	85.55	1,455.91	--
Over 5 years	--	--	452.06
Total	33,202.44	65,227.31	15,318.97

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*Gross i.e. excluding provision for depreciation on Investments.

f. Amount of NPA (Gross)

NIL

g. Net NPA's

NIL

h. NPA Ratios

Gross NPA to gross advances: NIL

Net NPA to net advances: NIL

i. Movement of NPAs (Gross)

Opening Balance: NIL

Additions: NIL

Reductions: NIL

Closing Balance: NIL

j. Movement of provisions for NPA

Not Applicable

k. Amount of Non-Performing Investments

NIL

l. Amount of provision held for non-performing investments

Not Applicable

m. Movement of provisions for depreciation on investments

Opening Balance: NIL

Provisions made during the period NIL

Write-off NIL

Write-back of excess provisions NIL

Closing Balance: NIL

n. Non-Performing Assets by major industry or counterparty type

NIL

o. Amount of NPAs and past due loans provided separately which broken down by significant geographic areas including the amounts of specific and general provisions related to each geographical area.

NIL

Table DF-4

Credit Risk: Disclosures for Portfolios Subject to the Standardised Approach:

Qualitative Disclosures:

In line with RBI directive for implementation of the New Capital Adequacy Framework, the Bank accepts the ratings of RBI prescribed following External Credit Rating Agencies (ECRA); under standardisation approach.

Domestic ECRA	International ECRA
Credit Analysis and Research Limited (CARE)	Moody's
CRISIL Limited	Standard & Poor's
India Ratings and Research Private Limited (India Ratings) (formerly FITCH India)	Fitch
ICRA Limited	
Brickwork Ratings India Private Limited	
SME Rating Agency of India Limited (SMERA Ratings Limited)	

The risk weights are mapped to the ratings assigned. The facilities for which the rating from ECRA is not available are treated as unrated and corresponding risk weight is assigned depending upon the tenor of the facility.

Quantitative Disclosures:

The exposure (excluding exposure to QCCP) as on June 30, 2017 under each credit risk category is as follows:

(Rs. in millions)

Risk Bucket	Amount
Below 100% Risk Weight	38,860.00
100% risk weight	1,404.79
More than 100% risk weight	59,725.25
Deducted	--
Total	99,990.04