BASEL - PILLAR 3 DISCLOSURES

for the year ending

December 31, 2013

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I. Background

ICICI Bank Canada (the "Bank") is a chartered bank, incorporated and domiciled in Canada. It is a wholly owned subsidiary of ICICI Bank Limited (the "Parent Bank") and regulated by the Office of the Superintendent of Financial Institutions ("OSFI"). Effective January 1, 2013, the Bank has adopted the Basel III framework, as required by OSFI. The OSFI has issued revised Capital Adequacy Requirements ("CAR") Guideline encompassing Basel II and Basel III requirements. The most significant aspects of Basel III are measures to improve the quality of capital and increase capital requirements for the global financial system. Common equity is now required to be the predominant form of capital. The Basel II framework consists of the following three-mutually reinforcing pillars:

- Pillar 1: Minimum capital requirements for credit risk, market risk and operational risk
- Pillar 2: Supervisory review of capital adequacy
- Pillar 3: Market discipline.

Market discipline (Pillar 3) comprises disclosures on the capital adequacy and risk management framework of the Bank. There are no entities that are required to be consolidated with the Bank or require deduction treatment.

This document sets out the Pillar 3 disclosure requirements and is in addition to the consolidated Basel III – Pillar 3 Disclosures made by the Parent Bank.

II. Basis of Disclosures

1. Scope of Application of Pillar 3 Requirements

The Pillar 3 disclosures of the Bank have been prepared in accordance with *International Convergence of Capital Measurement and Capital Standards: A Revised Framework - Comprehensive Version (the Basel II framework)* issued by the Basel Committee on Banking Supervision ("BCBS") in June 2006. Subsequently BCBS issued *Enhancements to the Basel II Framework* in July 2009 and *Revisions to the Basel II Market Risk Framework* in February 2011 followed by *Pillar 3 Disclosure Requirements for Remuneration* in July 2011. The third pillar of this framework describes the disclosure requirements for institutions subject to the Basel Accord, which in Canada includes banks, bank holding companies and federally regulated trust and loan companies (the "institutions"). Further, in June, 2012, BCBS had issued *Composition of capital disclosure requirements – Rules text.* This publication sets out a framework to ensure that the components of banks' capital bases are publicly disclosed in standardised formats across and within jurisdictions for banks subject to Basel III. Accordingly, OSFI had issued advisory on Public Capital Disclosure Requirements related to Basel III Pillar 3 in July, 2013 that provided expectations for Domestic Systemically Important Banks ("DSIBs") and non-DSIB. The Bank had made quarterly disclosures on its website in 2013 in line with this requirements. These Pillar 3 disclosures have been prepared in accordance with the OSFI's disclosure requirements issued from time to time.

2. Functional and Presentation Currency

The Pillar 3 disclosures are presented in Canadian currency, which is the Bank's functional currency. Except as otherwise indicated, financial information presented in Canadian dollars has been rounded to the nearest thousand.

3. Frequency of Disclosures

The Pillar 3 disclosures are made on an annual basis and published after the audit of the year end financial statements. In addition, quantitative disclosures on regulatory capital ratios are published on a quarterly basis.

4. Location of Disclosures

The Pillar 3 disclosures are located under the "Regulatory Disclosures" link under the ICICI Bank Info section on the home page of the Bank's website www.icicibank.ca. The Parent Bank's consolidated disclosures for FY2014 are available at http://www.icicibank.com/regulatory-disclosure.page.

5. Limitation of Disclosures

The Pillar 3 disclosures are unaudited and have been prepared purely for complying with OSFI's disclosure requirements explaining the basis on which the Bank has prepared and disclosed information about capital requirements and the management of certain risks and for no other purpose. They do not constitute any form of financial statements and may not be relied upon in making any judgment or investment on the Bank or the Parent Bank.

III. Capital Structure

The Bank's total regulatory capital comprises Tier 1 and Tier 2 capital subject to the various limits, restrictions and regulatory adjustments as described in Chapter 2 of CAR Guideline. Tier 1 capital primarily consists of Common Tier 1 ("CET 1") capital and additional Tier 1 capital. CET 1 capital includes common shares, additional paid in capital, retained earnings, and accumulated other comprehensive income and other disclosed reserves. Additional Tier 1 capital and Tier 2 capital includes preferred shares and subordinated notes respectively. The Bank's Capital Management Policy, which is reviewed and approved annually by the Board of Directors, governs the quantity and quality of capital to be maintained by the Bank. The objective of this policy is to maintain strong and efficient capital at levels that is appropriate for business requirements from time to time. The Bank also seeks to optimize return to shareholders and implement systems for monitoring the capital position.

The Bank estimates the regulatory capital requirements in line with the CAR Guideline issued by the OSFI. Capital is provided for the purpose of unforeseen and unexpected events based on the risk assessment for each of the underlying asset classes in the Bank's portfolio. Further, in line with industry practice, the Bank acknowledges that capital is not the only mitigating factor for all unforeseen events and contingencies and, therefore, appropriate risk management and governance practices are in place to actively monitor the risks the Bank is exposed to in the course of carrying on its business.

The Bank is in compliance with OSFI's capital adequacy requirements. The Senior Management of the Bank reviews the capital adequacy ratios on a monthly basis. In addition, the capital adequacy position and the risk weighted assets are reported to the Board of Directors on a quarterly basis.

The Bank is authorized to issue an unlimited number of common shares without par value and an unlimited number of non-voting preferred shares without par value. The OSFI must approve any plan to redeem the Bank's capital for cash.

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The Bank has issued 839,500,000 common shares for cash consideration to the Parent. During the year ended December 31, 2013, the Bank has repatriated in cash, by way of 'stated capital reduction', an amount of $75,000 to the common shareholders after receiving necessary approvals from OSFI.

The Bank has also issued preferred shares of an aggregate value of $92,732 for cash consideration to the Parent. The Series A preferred shares of $10,000 are not redeemable at the option of the Bank prior to 10 years following their issuance and bear a fixed, non-cumulative cash dividend of 1% per annum. The Series B and Series C preferred shares of $12,732 and $15,000 each are not redeemable at the option of the Bank prior to 5 years following their issuance and bear a fixed, non-cumulative cash dividend of 7% per annum. The Series D and Series E preferred shares of $25,000 and $30,000 each are not redeemable at the option of the Bank prior to 5 years following their issuance and bear a fixed, non-cumulative cash dividend of 7.25% per annum. The terms and conditions of the preferred shares require the Bank to gross up the dividend payment for any withholding taxes so that the net payment is equal to the total amount of the dividend declared, unless waived by the shareholders.

The redemption of these preferred shares would require the payment in cash of the value of the preferred shares, together with declared and unpaid dividends up to the redemption date. The holders of these preferred shares are entitled to annual, non-cumulative preferential cash dividends. The Bank is prohibited from declaring dividends on its preferred or common shares when it would be, as a result of paying such a dividend, in contravention of the capital adequacy, liquidity or any other regulatory directives issued under the Bank Act (Canada).

Further, effective January 1, 2013, as required under the revised CAR Guideline, these preferred shares are subject to phase-out rules of non-qualifying capital since they do not meet the criteria for inclusion in Additional Tier 1 capital (and do not meet the criteria for inclusion in CET 1). These are however eligible for transitioning with the nominal amount of $92,732 preferred shares outstanding as on January 1, 2013 fixed as the base and their recognition capped at 90% from January 1, 2013, with the cap reducing by 10% in each subsequent year.

The Bank had issued a subordinated note to its affiliate, ICICI Bank UK PLC, in the amount of $25,000 on January 31, 2007. The interest rate on the note was at the rate of LIBOR plus 2.5% per annum, payable quarterly in arrears, until April 30, 2012, and at the rate of LIBOR plus 3.0% per annum thereafter, until maturity on April 30, 2017. These notes did not meet the criteria for inclusion in Tier 2 capital effective January 1, 2013, as required under the revised CAR Guideline and were derecognized from regulatory capital effective January 1, 2013. The Bank prepaid these notes on April 30, 2013 after receiving necessary approvals from OSFI.

The Bank had issued a subordinated note to ICICI Bank Limited (Bahrain branch) in the amount of $25,000 on March 31, 2008. As per the original terms, interest was payable at the rate of LIBOR plus 4.6% per annum, quarterly in arrears, until March 31, 2013, and at the rate of LIBOR plus 5.0% per annum thereafter, until maturity on March 31, 2018. The interest step-up clause effective end of the first five years on the note was eliminated and the interest rate for the entire tenor of the note was revised to LIBOR plus 4.6% per annum in December 2012. In the course of 2013, the British Bankers' Association ("BBA"), discontinued LIBOR fixing for a number of currencies including Canadian dollars and consequently the benchmark LIBOR was amended to CDOR effective June 28, 2013.

The Bank had issued a subordinated note to ICICI Bank Limited (Bahrain branch) in the amount of $25,000 on September 23, 2008. As per the original terms, interest was payable at the rate of LIBOR plus 4.6% per annum, quarterly in arrears, until September 23, 2013, and at the rate of LIBOR plus 5.0% per annum thereafter, until maturity on September 23, 2018. The interest step-up clause effective end of the first five

years on the note was eliminated and the interest rate for the entire tenor of the note was revised to LIBOR plus 4.6% per annum in December 2012. In the course of 2013, the BBA, discontinued LIBOR fixing for a number of currencies including Canadian dollars and consequently the benchmark LIBOR was amended to CDOR effective June 28, 2013.
The terms and conditions of all these subordinated notes require the Bank to gross up the interest payment for any withholding taxes so that the net payment is equal to the total amount of the interest due.

Effective January 1, 2013, as per the revised CAR Guideline, the subordinated notes issued to ICICI Bank Limited (Bahrain branch) do not meet the criteria for inclusion in Tier 2 capital. Hence these are subject to phase-out rules of non-qualifying capital as required by CAR Guideline and are eligible for transitioning. The nominal amount of $50,000 subordinated notes outstanding as on January 1, 2013 after amortization, if any, has been fixed as the base. These will continue to be amortized on a straight-line basis at a rate of 20% per annum during the transition period, while the aggregate cap will be reduced at a rate of 10% per year. The lower of the two amounts computed based on amortization in the final 5 years of maturity and as per the aggregate cap, will be included in Tier 2 capital.

The following table summarizes the amount and composition of the Bank's regulatory capital and capital ratios as at December 31, 2013:

Regulatory Capital	**Amount in 000s CAD**
Common Equity Tier 1 (CET1) Capital	
Common shares	**764,500**
Additional paid-in capital	3,007
Retained earnings	88,584
Accumulated other comprehensive income	7,735
	863,826
Regulatory adjustments to CET1 Capital	
Debit valuation adjustment on derivatives	21
Net CET1 Capital	**863,805**
Additional Tier 1 Capital	
Preferred share capital	
(after phase out arrangements for capital adequacy purposes)	83,459
Net Tier 1 Capital	**947,264**
Tier 2 Capital	
Subordinated notes	
(after phase out arrangements & net of amortization for capital adequacy purposes)	40,000
Net Tier 2 Capital	**40,000**
Total Capital	**987,264**

IV. Capital Adequacy

1. Approaches

The Bank determines its Pillar 1 regulatory capital requirement based on the following approaches:

a) Credit risk - Standardized Approach

The Bank has adopted the Standardized Approach for computing capital requirements under credit risk. Under the Standardized Approach, the Bank applies risk weights to various on-balance sheet and off-balance sheet (credit equivalent amounts) exposures with the exception of items that are deducted from capital as regulatory adjustments pursuant to the CAR Guideline, section 2.3 of Chapter 2 – Definition of Capital. On-balance sheet exposures include claims on sovereigns, banks, corporates, residential mortgages, regulatory retail portfolio, equity, securitization exposure, etc. Off-balance sheet exposures include direct credit substitutes, transaction-related contingencies, trade-related contingencies, interest rate swaps, forward foreign exchange contracts, cross currency swaps, etc. Further, the exposures are also categorized into drawn, undrawn commitments, repo-style transactions, OTC derivatives and other off-balance sheet exposures. All exposures are risk weighted net of individual allowances at risk weights as per CAR Guideline for computation of total risk weighted assets.

b) Market risk - The Bank did not meet the threshold criteria defined in the Chapter 9 of CAR Guideline for market risk framework as at December 31, 2013 and thus the market risk framework was not applicable. Also as required by OSFI's CAR Guideline, the trading book exposures have been included as part of the banking book exposures.

c) Operational risk – Basic Indicator Approach

The Bank has adopted the Basic Indicator Approach for computing capital requirements under operational risk. Under this approach the Bank is required to hold capital for operational risk equal to the average over the previous three years of a fixed percentage (currently 15%) of positive annual gross income. Amounts for any year in which annual gross income is negative or zero is required to be excluded from both the numerator and denominator when calculating the average gross income. The CAR Guideline defines gross income as net interest income plus net non-interest income and excludes realized profits/losses from the sale of securities in the banking book and any extraordinary or irregular items as well as income derived from insurance. The operational risk weighted assets is calculated as 12.5 times operational risk capital charge.

The amount and composition of the Bank's capital requirement is determined by assessing the minimum capital requirement under Pillar 1 based upon the CAR Guideline, the impact of stress and scenario tests, the Bank's risk appetite and the capital requirement that is consistent with the Bank's business plan.

Further, the CET 1, Tier 1 and Total capital ratios are computed by dividing CET 1, Tier 1 and total capital by total risk weighted assets determined under Pillar 1 as per OSFI's CAR Guideline. The Bank also calculates its Asset-to-Capital Multiple ("ACM") by dividing gross adjusted On Balance Sheet assets and selected Off Balance Sheet assets, net of capital deduction by the total regulatory capital on transitional basis. OSFI prescribes the regulatory capital ratios and ACM for Deposit Taking Institutions. OSFI has stipulated the minimum capital requirements in Chapter 1 of CAR Guideline, OSFI expects all institutions to attain "all-in" target CET 1 ratio of 7% by Q1, 2013, 8.5% for total tier 1 and 10.5% for total capital by Q4, 2014.

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Approaches to assessing capital adequacy

The Bank, in line with the regulatory capital requirements of OSFI and the Parent Bank's regulator, the Reserve Bank of India ("RBI"), has instituted an Internal Capital Adequacy Assessment Process ("ICAAP") which is used to estimate the capital requirements in line with the risk appetite of the Bank. The ICAAP is approved by the Risk Committee ("RC") of the Board of Directors.

The Bank's capital management framework includes a comprehensive ICAAP conducted annually which determines the adequate level of capitalization for the Bank to meet regulatory norms as well as current and future business needs, including under stress scenarios. The ICAAP encompasses capital planning for a three-year time horizon, identification and measurement of material risks and the relationship between risk and capital.

The capital management framework is complemented by the risk management framework, which includes a comprehensive assessment of material risks. Stress testing, which is a key aspect of the ICAAP and the risk management framework, provides an insight on the impact of extreme but plausible scenarios on the Bank's risk profile and capital position. Based on the Board-approved stress testing framework, the Bank conducts stress tests on its various portfolios and assesses the impact on its capital ratios and the adequacy of capital buffers for current and future periods. The Bank periodically assesses and refines its stress tests in an effort to ensure that the stress scenarios capture material risks as well as reflect possible extreme market moves that could arise as a result of market conditions. The business and capital plans and the stress testing results of the group entities are integrated into the ICAAP.

Based on the ICAAP, the Bank determines the level of capital that needs to be maintained by considering the following in an integrated manner:

- Bank's strategic focus, business plan and growth objectives;
- Regulatory capital requirements as per the OSFI guidelines; and
- Assessment of material risks and impact of stress testing.

Monitoring and reporting

The Board of Directors of the Bank maintains an active oversight over the Bank's capital adequacy levels. An analysis of the capital adequacy position and the risk weighted assets are reported to the Board of Directors on a quarterly basis. Further, the ICAAP also serves as a mechanism for the Board to assess and monitor the Bank's capital adequacy position over a three year time horizon.

2. Pillar 1 Regulatory Capital Requirement

The following table summarizes the Bank's Pillar 1 credit risk weighted assets by each of the standardized exposure classes as at December 31, 2013:

Standardized approach – credit risk asset classes	**Risk-weighted assets**
Banking Book (excl. securitizations)	
Corporate	2,542,239
Sovereign	-
Bank	140,649
Retail Residential Mortgages	56,606
Other Retail excl. SBE	824
SBE treated as Other Retail	-
Equity	316
Trading Book	-
Securitizations	170,169
Other credit risk-weighted assets	32,318
Total adjusted risk-weighted assets for credit risk	**2,943,121**
Standardized Approach	**Risk-weighted assets**
Market Risk	-
Basic Indicator Approach	**Risk-weighted assets**
Operational Risk	**179,913**
Total adjusted risk weighted assets	**3,123,034**

The following table summarizes the Bank's regulatory capital ratios and ACM as at December 31, 2013:

Regulatory capital ratios	
CET 1 Capital (%)	27.66%
Tier 1 Capital (%)	30.33%
Total Capital (%)	31.61%
Assets to capital multiple	5.29

3. Credit Risk

a) Credit Risk Management

Credit risk is the risk that a bank will incur a loss because its customers or counterparties fail to discharge their contractual obligations and arises principally from the bank's loans and advances to customers and other banks, and investment in debt securities. The Bank's Credit and Recovery Policy ("CRP"), which is approved by its Board, describes the principles which underlie and drive the Bank's approach to credit risk

management together with the systems and processes through which it is implemented and administered. The CRP aims to maximize the Bank's risk-adjusted rate of return while maintaining the Bank's credit risk exposure within limits and parameters as approved by the Board. Additionally the Bank has implemented a Residential Mortgage Underwriting Policy ("RMUP"). This policy provides guidelines in respect of the manner in which lending and recovery activities of residential mortgage business shall be conducted by the Bank. The principles underlying overall credit risk management are covered in the CRP while the RMUP applies specifically only to the residential mortgage underwriting business.

The Bank takes a two-tier approach to the assessment of corporate/commercial credit risk: initially, by a lending officer proposing the transaction, followed by a credit officer independently assessing the same. The CRP lays down a structured and standardized credit approval process, which includes a well-established procedure of independent and comprehensive credit risk assessment and the assignment of an internal risk rating to the borrower. The risk rating is a critical input for the credit approval process and is used as an input in arriving at the credit risk spread, and also subsequently, in arriving at the loan loss allowance against the credit.

Credit proposals are approved by either the RC of the Board of Directors or the Management Credit Committee ("MCC") based on, inter alia, the amount and internal risk rating of the facility. All credit proposals are approved by the MCC before being recommended to the RC by the Chief Risk Officer ("CRO"). The credit middle office function is responsible for credit administration, which includes monitoring compliance with the terms and conditions for credit facilities prior to disbursement. The group also reviews the completeness of documentation and creation of security for assets financed and post-disbursement monitoring as per stipulated terms and conditions.

The residential mortgage applications are electronically transmitted from the mortgage brokers into an underwriting system with built-in business rules to determine parameters/approval authorities to facilitate the underwriting process. Each application is also submitted to credit insurer for approval. Only the applications approved by the credit insurer are adjudicated by the underwriting team based on the Bank's RMUP. The underwriting team is also responsible for credit administration, which includes monitoring compliance with the terms and conditions for the committed mortgages prior to disbursement. The closing centers review the completeness of documentation and creation of security including title insurance for the mortgage.

The Bank follows an approach consistent with the Parent Bank in terms of dealing with sovereign and financial institutions worldwide. The primary responsibility for evaluating global financial institution exposures rests with the Parent Bank's International Financial Institutions Group (IFIG). Global bank lines are advised by the Parent Bank annually. The Bank adopts the lower of the globally approved limit or the maximum permissible limits as applicable under large exposure limit under the Portfolio Management section in the CRP. Lending officers approach IFIG and obtain their first line approval for entering in to a relationship, before progressing on a proposal for a particular bank or non-bank financial institution or counterparty and present their evaluation in writing to MCC. The Bank has also setup aggregate exposure limits which are monitored and reported to MCC on a monthly basis and to RC on a quarterly basis.

The Bank has put in place a Board-approved comprehensive limit framework (as included in CRP and RMUP) to prudently manage the credit risk profile of the Bank. The Bank complies with the norms on exposure stipulated by OSFI for both single borrower as well as at a connection level. Limits have been set as a percentage of the Bank's capital funds and are regularly monitored. The material limits included as part of the CRP include limits on single party exposure, connection exposure, risk rating category, industry, geographical exposures, portfolio exposures, type of borrower, class of security, tenor, and Loss Given Default ("LGD") profile. Similarly, the material limits included as part of the RMUP include limits on total

portfolio, provincial exposures, private mortgage insurer exposures and unsecuritized exposures.

All credit exposures are measured and monitored using a centralized exposure management system. The analysis of the composition of the portfolio and limits compliance is presented to MCC on a monthly basis and quarterly to RC. In addition, credit limits for Corporate and Treasury clients are monitored by the Middle Office Groups and the monitoring reports which detail deficiencies and limit breaches, are sent to Senior Management on a regular basis.

Equity exposure:

The Bank's equity exposure includes an investment of $88 [£50] in ICICI Bank UK PLC., a subsidiary of the Parent and $228 in equity warrants of a domestic non-financial corporate and these are risk weighted at 100%.

The following table summarizes the Bank's total gross credit risk exposure (credit-equivalent amount for OTC derivative exposures) and risk-weighted assets ("RWA") as at December 31, 2013:

Portfolio	**Drawn**	**Undrawn Commitments**[1]	**OTC Derivatives**	**Other Off Balance Sheet Items**[1]	**Total**	**RWA**
Corporate	2,287,248	423,668	1,757	35,020	2,747,693	2,542,239
Sovereign	466,332	-	-	-	466,332	-
Bank	176,440	-	15,564	-	192,004	140,649
Total Institutional Credit Exposures	**2,930,020**	**423,668**	**17,321**	**35,020**	**3,406,029**	**2,682,888**
Residential Mortgages	2,292,843	98,973	-	-	2,391,816	56,606
Other Retail (excl. SMEs)	67,135	641	-	-	67,776	824
Retail SME	-	-	-	-	-	-
Total Retail Credit Exposures	**2,359,978**	**99,614**	**-**	**-**	**2,459,592**	**57,430**
Equity Exposures	**316**	**-**	**-**	**-**	**316**	**316**
Securitization Exposures	**15,981**				**15,981**	**170,169**
Other credit risk-weighted assets					**-**	**32,318**
Total Gross Credit Exposures	**5,306,295**	**523,282**	**17,321**	**35,020**	**5,881,918**	**2,943,121**

[1]. Undrawn commitments and other Off B/S items have been included at notional principal value.
Note: Gross credit exposure is gross of all allowances for credit loss.

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The following table summarizes the Bank's total average gross credit risk exposure (credit-equivalent amount for OTC derivative exposures) and risk-weighted assets ("RWA") as at December 31, 2013:

Portfolio	Drawn	Undrawn Commitments[1]	OTC Derivatives	Other Off Balance Sheet Items[1]	Total	RWA
Corporate	2,310,841	434,677	4,954	44,410	2,794,882	2,545,143
Sovereign	595,014	-	-	-	595,014	-
Bank	184,558	-	22,299	-	206,856	152,899
Total Institutional Credit Exposures	**3,090,413**	**434,677**	**27,253**	**44,410**	**3,596,753**	**2,698,043**
Residential Mortgages	2,084,599	117,431	-	-	2,202,029	46,961
Other Retail (excl. SMEs)	66,957	609	-	-	67,566	618
Retail SME	-	-	-	-	-	-
Total Retail Credit Exposures	**2,151,556**	**118,039**	**-**	**-**	**2,269,595**	**47,580**
Equity Exposures	**1,143**	**-**	**-**	**-**	**1,143**	**1,143**
Securitization Exposures	**16,619**	**-**	**-**	**-**	**16,619**	**170,297**
Other credit risk-weighted assets					**-**	**67,066**
Total Gross Credit Exposures	**5,259,730**	**552,716**	**27,253**	**44,410**	**5,884,109**	**2,984,128**

[1]. Undrawn commitments and other Off B/S items have been included at notional principal value.

Note: Gross credit exposure is gross of all allowances for credit loss and average exposure has been calculated based on monthly average exposures.

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The following table summarizes the Bank's total gross credit exposures (credit-equivalent amount for OTC derivative exposures) by risk weights as at December 31, 2013:

Exposure Category	Drawn	Undrawn Commitments[1]	OTC Derivatives	Other Off Balance Sheet Items[1]	Total
0% risk weight	2,595,297				2,595,297
More than 0% but less than 100% risk weight	212,247	99,614	15,114		326,975
100% risk weight	2,350,527	423,668	2,207	35,020	2,811,422
More than 100% risk weight	148,224				148,224
Total Gross Credit Exposures	**5,306,295**	**523,282**	**17,321**	**35,020**	**5,881,918**

1. Undrawn commitments and other Off B/S items have been included at notional principal value.

The following table summarizes the Bank's total net credit exposures after credit risk mitigation ("CRM") by risk weights as at December 31, 2013:

Exposure Category	Rated	Unrated	Total
0% risk weight	2,595,297		2,595,297
More than 0% but Less than 100% risk weight	66,632	260,343	326,975
100% risk weight	127,778	2,567,895	2,695,673
More than 100% risk weight		148,224	148,224
Total Net Credit Exposures after CRM	**2,789,707**	**2,976,462**	**5,766,169**

Note: Net credit exposure is gross credit exposure (credit equivalent amount for Off B/S exposures) less specific allowances and eligible financial collateral. It excludes eligible guarantees/credit derivatives of CAD 21,992.

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The following table summarizes the Bank's total gross credit exposures by geography based on the location of ultimate risk as at December 31, 2013:

Category	Canada	India	Others	Total
Deposit with Bank	18,225	23,121	9,515	**50,861**
Securities	482,313	-	-	**482,313**
Loans	3,945,731	647,486	164,366	**4,757,583**
Undrawn Commitments	504,088	6,734	12,460	**523,282**
OTC Derivatives	12,681	450	4,190	**17,321**
Other Off Balance Sheet Items	27,026	7,994	-	**35,020**
Equity	228	-	88	**316**
Total Gross Credit Exposures	**4,990,292**	**685,785**	**190,619**	**5,866,696**

Note: Gross credit exposure (credit equivalent amount for Off B/S exposures) by geography excludes accrued interest of CAD 15,222.

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The following table summarizes the Bank's industry-wise distribution of total gross credit exposures as at December 31, 2013:

Category	Deposit with Bank	Securities	Loans	Undrawn Commitments[1]	OTC Derivatives	Other Off B/S Items[1]	Equity	Total
Agriculture			9,742	5,258				15,000
Capital Goods			187,795	23,885	1,757			213,437
Communications			166,369	27,460	-			193,829
Energy			559,904	110,267		7,951		678,122
Financial Services	50,861		135,612	1,933	15,564	8,923	88	212,981
Government & Sovereign		466,332	-					466,332
Life Sciences			146,264	8,320				154,584
Manufacturing		-	47,479				228	47,707
Metal & Mining			281,511	24,847		11		306,369
Real Estate			113,834	360				114,194
Resources & Basic Material			33,254	27,299				60,553
Retail & Wholesale			144,616	59,121	-			203,737
Retail Finance[2]			2,359,551	99,615				2,459,166
Services			259,973	31,868	-			291,841
Technology			-					-
Transportation			165,642	103,049	-			268,691
Others		15,981	146,036			18,135		180,152
Total Gross Credit Exposures	**50,861**	**482,313**	**4,757,583**	**523,282**	**17,321**	**35,020**	**316**	**5,866,696**

1. Undrawn commitments and other Off B/S items have been included at notional principal value.
2. Retail Finance includes residential mortgages and personal loans.

The following table summarizes the Bank's maturity pattern of assets as at December 31, 2013:

Maturity buckets	Cash	Balances with banks & money at call and short notice	Investments	Loan & Advances, net of allowances for credit losses	Fixed assets	Other assets	Total assets
Next day	1,974	29,589	465,836	11,862	-	16,591	525,852
2 to 7 days	-	21,272	-	18,584	-	-	39,856
8 to 14 days	-	-	-	49,818	-	-	49,818
15 to 28 days	-	-	-	130,727	-	16,266	146,993
29 days to 3 months	-	-	-	143,009	-	-	143,009
3 to 6 months	-	-	-	152,037	-	-	152,037
6 months to 1 year	-	-	-	308,515	-	-	308,515
1 to 3 years	-	-	348	1,472,782	-	-	1,473,130
3 to 5 years	-	-	-	1,877,203	-	-	1,877,203
Above 5 years	-	-	16,358	538,586	1,429	7,286	563,659
Total	1,974	50,861	482,542	4,703,123	1,429	40,143	5,280,072

b) Credit Risk Mitigation

Collateral management

The types of acceptable collateral are documented in the CRP. The main types of collateral obtained are as follows:

- For corporate/commercial lending, assets of the borrower/corporate guarantors, personal assets of the principals and/or pledge of equity interests, charge on equipment and current assets, hypothecation of movables. Generally, for commercial lending, the Bank also obtains guarantees from parent companies for loans to their subsidiaries;
- For retail lending, charge on personal assets, including real estate/property; and
- For residential mortgages, first/second mortgage charge in favor of the Bank, as well as insurance by Canada Mortgage and Housing Corporation ("CMHC") or approved private insurers.

All borrower accounts, including their ratings and underlying collateral, are reviewed at least on an annual basis or in a shorter interval if recommended by the CRO or the relevant sanctioning committee. Collateral is obtained when the loan is initially granted and is monitored periodically.

Credit risk mitigation techniques

OSFI guideline on CAR allows the following credit risk mitigants to be recognized for regulatory capital purposes:

- Eligible financial collaterals, which include cash (deposited with the Bank), and securities issued by Federal and Provincial Government
- Eligible guarantees/credit derivatives including for CMHC insured mortgages

The Bank reckons the permitted credit risk mitigants for obtaining capital relief through reduction in risk weighted assets only when the credit risk mitigant fulfills the conditions stipulated for eligibility by OSFI in its guidelines on CAR.

Concentrations within credit risk mitigation

The CAR guidelines, among its conditions for eligible credit risk mitigants, require that there should not be a material positive correlation between the credit quality of the counterparty and the value of the collateral being considered. Currently, the Bank does not have any concentration risk within credit risk mitigation.

The following table summarizes the portfolio covered by eligible financial collateral and guarantees/credit derivatives as at December 31, 2013:

Risk-weighted assets	**Eligible financial collateral**	**Eligible guarantees/ credit derivatives**
Corporate	18,135	
Sovereign		
Bank		
Total Institutional Credit Exposures	**18,135**	**-**
Residential Mortgages		21,992
Other Retail (excl. SMEs)	66,164	
Retail SME		
Total Retail Credit Exposures	**66,164**	**21,992**
Total Gross Credit Exposures	**84,299**	**21,992**

External ratings

The Bank uses external ratings of recognized rating agencies identified in the OSFI's CAR Guidelines for its sovereign, bank and securitization exposures. Accordingly, ratings from external rating agencies S&P, Fitch, Moody's and DBRS are used for capital adequacy purposes. The Bank also uses the standard mapping published in the CAR guidelines.

c) Counterparty Credit Risk

Counterparty credit risk ("CCR") in the context of Pillar 3 disclosure is the risk that the counterparty to a derivative transaction posted to either the Banking Book or Trading Book could default before the final settlement of the transaction's cash flows. The Bank uses the Current Exposure Method to measure credit equivalent amount of counterparty credit exposures. Current replacement cost is the positive fair value of outstanding derivative financial instruments, which represents the Bank's derivative credit exposure. Credit equivalent amount is the current replacement cost for favorable contracts plus an amount for future credit exposure associated with the potential for future changes in currency rates for the contracts. Future credit exposure is calculated by multiplying notional principal amount with add-on factors prescribed by OSFI. Further, the risk-weighted amounts represent the credit equivalent amount weighted according to the creditworthiness of the counterparty, using factors prescribed by OSFI.

The following table summarizes the notional principal values of the derivative instruments along with the gross positive and gross negative fair value, credit equivalent amount and risk-weighted assets as at December 31, 2013:

	Notional Principal Amount	Gross Positive Fair Value	Gross Negative Fair Value	Credit Equivalent Amount	Risk-weighted Assets
Forward foreign exchange contracts	293	-	-	3	1
Foreign currency swaps	1,387,754	944	26,744	14,822	3,324
Interest rate swaps	236,051	1,848	1,757	2,496	1,905
Total	**1,624,098**	**2,792**	**28,501**	**17,321**	**5,230**

d) Impairment

At each reporting date, the Bank assesses whether there is objective evidence that loans are impaired. Loans are classified as impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the loan (a "loss event") and that loss event (or events) has/have an impact on the estimated future cash flows of the loan that can be reliably estimated.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

(a) significant financial difficulty of the issuer or obligor;
(b) a breach of contract, such as a default or delinquency in interest or principal payments;
(c) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
(d) it becomes probable that the borrower will enter bankruptcy or other financial reorganization; and
(e) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans since the initial recognition of those loans, although the decrease cannot yet be identified with the individual loans in the portfolio, including:
  - adverse changes in the payment status of borrowers in the portfolio; and
  - national or local economic conditions that correlate with defaults on the loans in the portfolio.

An allowance for impairment is maintained at a level that Management considers adequate to absorb identified credit-related losses, as well as losses that have occurred but have not yet been identified.

To ensure that any impairment is identified on a timely basis, the Bank's loans are reviewed regularly for their credit quality, taking into consideration all readily available information. When substantive information suggests any significant deterioration in the credit quality of a loan or a portfolio of loans, the credit or credits are reviewed immediately, even if a regularly scheduled review is not due.

The Bank considers evidence of impairment for loans and advances at both an individual asset and collective level. All individually significant loans and advances are assessed for impairment on an individual basis. All individually significant loans and advances found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances that are not individually significant are collectively assessed for impairment by grouping together loans and advances with similar risk characteristics. In assessing collective impairment, the Bank uses historical trends of the probability of default, and the amount of loss incurred, adjusted for Management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modeling.

Default rates and loss rates are benchmarked against actual outcomes to ensure that they remain appropriate. Impairment losses on loans and advances are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognized in profit or loss and reflected in an allowance account against loans and advances. Interest on impaired assets continues to be recognized although an allowance may be established to the extent it is not enough to be recovered. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss. The Bank writes off loans and advances when they are determined to be uncollectible.

Loans for which interest and principal is contractually past due 90 days are generally recognized as impaired, unless Management determines that loan as fully secured, in the process of collection, and the collection efforts are reasonably expected to result in either payment of the loan or restoring it to a current status within 180 days from the date payment has become contractually in arrears. An exception to these conditions is made for not more than 365 days from the date a loan is contractually in arrears where the loan is guaranteed or insured by a Canadian Government (federal or provincial) or a Canadian Government agency, the validity of the claim is not in dispute and, as a consequence, the lender has reasonable assurance of collection of the full principal and interest, including full compensation for any overdue payments calculated at the loan's contractual interest rate.

The following table shows the collective allowances by industry as at December 31, 2013:

Industries	**Collective Allowance**
Agriculture	33
Capital Goods	6,311
Communications	320
Energy	2,282
Financial Services	40
Government & Sovereign	-
Life Sciences	2,578

Industries	Collective Allowance
Manufacturing	358
Metal & Mining	1,131
Real Estate	228
Resources & Basic Material	32
Retail & Wholesale	270
Retail Finance	379
Services	1,080
Technology	-
Transportation	362
Others	7,607
Total	**23,011**

The following table shows the movement of collective allowances during the year ended December 31, 2013:

	Amount
Opening Balance (January 1, 2013)	33,030
Provisions made during the year, net	(10,019)
Closing balance (December 31, 2013)	**23,011**

The Bank follows a two-tier risk rating system for credits, consisting of a borrower/obligor risk rating ("BRR") and a transaction risk rating ("TRR"). Borrowers/obligors are risk-rated using general corporate or sector specific scorecards by assigning a fourteen grade classification system (1 upto 8) to reflect the probability of default. The TRR is then determined by adjusting the BRR to reflect collateral assessment as per the loss given default framework and TRR framework.

Credits with a BRR 1 through 4C are considered "Satisfactory", BRR 5 considered "Especially mentioned" and BRR 6 treated as "Substandard". An exposure rated BRR 7 is closely monitored or "Doubtful". Exposures rated BRR 8 are internally classified as "Default and impaired" where losses are identifiable on an individual basis with a specific allowance established against each exposure.

The following table shows the amount of "Doubtful" or "Default and impaired" loans by loan type as at December 31, 2013:

	Gross Outstanding Amount	Specific Allowance#	Net Amount
Non-mortgage loans			
To individuals for non-business purposes	-	-	-
Other	176,846	31,432	145,414
Mortgage loans			
Residential	92	-	92
Non-residential	18	18	-
Total	**176,956**	**31,450**	**145,506**

Includes IFRS requirement of specific allowances held on account of interest accruals on "doubtful" or "default and impaired" loans.

The following table shows the net amount of "Doubtful" or "Default and impaired" loans by geography based on the location of ultimate risk as at December 31, 2013:

	Canada	India	Others	Total
Gross Outstanding Amount	12,613	164,343	-	176,956
Specific Allowance	9189#	20,626#	1,635#	31,450
Net Amount	**3,424**	**143,717**	**(1,635)**	**145,506**

Includes IFRS requirement of specific allowances held on account of interest accruals on "doubtful" or "default and impaired" loans.

The following table shows the amount of "Doubtful" or "Default and impaired" loans by industry as at December 31, 2013:

Industries	Gross Outstanding Amount	Specific Allowance	Net Amount
Agriculture	-	-	-
Capital Goods	93,362	3,893	89,469
Communications	-	-	-
Energy	33,934	1,267	32,667
Financial Services	-	-	-
Government & Sovereign	-	-	-
Life Sciences	1,017	3,487	(2,470)
Manufacturing	-	-	-
Metal & Mining	12,285	7,641	4,644
Real Estate	12,549	9,219	3,330
Resources & Basic Material	8,797	2,990	5,807
Retail & Wholesale	-	-	-
Retail Finance	92	-	92
Services	14,920	195	14,725
Technology	-	-	-
Transportation	-	1,635	(1,635)
Others	-	1,123	(1,123)
Total	**176,956**	**31,450**	**145,506**

Includes IFRS requirement of specific allowances held on account of interest accruals on "doubtful" or "default and impaired" loans.

BASEL - PILLAR 3 DISCLOSURES

The following table shows the movement in "Doubtful" or "Default and impaired" loans for the year ended December 31, 2013:

Gross Loans	**Amount**
Opening Balance (January 1, 2013)	75,115
Additions during the year	145,037
Reductions during the year	(43,196)
Closing balance (December 31, 2013)	**176,956**
Net Loans	**Amount**
Opening Balance (January 1, 2013)	57,483
Additions during the year	137,773
Reductions during the year	(49,750)
Closing balance (December 31, 2013)	**145,506**

Net "Doubtful" or "Default and impaired" loans are gross "Doubtful" or "Default and impaired" loans less specific allowances

The following table shows the movement of specific allowances on "Default and impaired" loans for the year ended December 31, 2013:

	Amount
Opening Balance (January 1, 2013)	17,632
Provisions made during the year	16,657
Write-off during the year	(2,804)
Write-back of excess provisions during the year	(35)
Closing balance (December 31, 2013)	**31,450**

The following table shows the industry-wise specific provisions accounted in the statements of comprehensive income for the year ended December 31, 2013:

Industries	**Amount**
Agriculture	-
Capital Goods	3,859
Communications	-
Energy	1,267
Financial Services	-
Government & Sovereign	-
Life Sciences	496
Manufacturing	-
Metal & Mining	2,624
Real Estate	5,326
Resources & Basic Material	2,854
Retail & Wholesale	-
Retail Finance	-
Services	195

Industries	Amount
Technology	-
Transportation	-
Others	-
Total	**16,622**

The following table shows the amount of non performing investments (“NPI”) as at December 31, 2013:

	Amount
Gross NPI	15,000
Less: Provisions	(1,425)
Net Book Value of NPIs	**13,575**

e) Securitization

The Bank’s primary objective of securitization activities is to increase the efficiency of capital and enhance the return on capital employed by diversifying the sources of funding.

The Bank has entered into securitization arrangements in respect of its originated and purchased (originated by third parties) mortgages, to issue National Housing Act (“NHA”) – MBS and participates in Canada Mortgage Bonds (“CMB”) program as a seller. The NHA MBS are backed by pools of amortizing residential mortgages insured by the Canada Mortgage and Housing Corporation (“CMHC”) or approved third party insurers. The CMB, introduced by CMHC, is a guaranteed, semi-annual coupon, bullet-maturity bond. CMB are issued by a special purpose trust, known as the “Canada Housing Trust”.

For mortgages securitized and sold into the CMB program, the Bank retains substantially all the risks and rewards, comprising primarily prepayment risk related to ownership of these mortgages and hence, these mortgage securitizations do not qualify for de-recognition accounting under International Accounting Standard (“IAS 39”), Financial Instruments: Recognition and Measurement (“IAS 39”). For mortgages that are securitized and the resulting MBS that are sold outside of the CMB program, the Bank has determined that it neither transfers nor retains substantially all the risks and rewards associated with the ownership of these mortgages. However, the Bank retains control over these mortgages and hence, it continues to recognize the mortgages securitized. For all mortgage securitizations, the amounts received through securitization and sale are recognized as “Secured borrowings” and no gain on sale is recognized.

As required under the CMB program, the Bank, as an issuer, has undertaken to remit monthly to the Central Payor and Transfer Agent (the “CPTA”) the payments of principal and interest accrued and due on the mortgage loans in the pools. The Bank has also undertaken to make the payments to the CPTA on the due dates even if the corresponding amounts have not been received and collected by the Bank in respect of the pools.

The Bank did not securitize any of its assets except the residential insured mortgages under NHA-MBS and CMB programs as an originator during the year ended on December 31, 2013. However, such securitization is not subject to a securitization framework under the CAR guidelines. Accordingly, these securitized insured mortgages are risk-weighted as per the standardized approach for credit risk.

The Bank is also an investor in securitized debt instruments backed by financial assets originated by third parties. The Bank uses the standardized approach under the securitization framework for its securitization

exposures as an investor. The Asset & Liability Committee ("ALCO") reviews the investments held in securitized debt instruments on a monthly basis.

The following table shows the amount of assets intended to be securitized during the year in the banking book as at December 31, 2013:

	Amount
Amount of assets intended to be securitized within a year	1,195,500
Of which:	
Amount of assets originated within a year before securitization	1,029,991

Break-up of aggregate amount of securitization exposures retained or purchased by exposure type in the banking book as at December 31, 2013:

On-balance sheet	**Amount**
Vehicle / equipment loans	-
Home & home equity loans	-
Personal loans	-
Corporate loans	2,406
Mixed Asset	-
Total	**2,406**
Off-balance sheet	**Amount**
Vehicle / equipment loans	-
Home & home equity loans	-
Personal loans	-
Corporate loans	-
Mixed Asset	-
Total	**-**

Break-up of aggregate amount of securitization exposures retained or purchased by exposure type in the trading book as at December 31, 2013:

On-balance sheet	**Amount**
Vehicle / equipment loans	-
Home & home equity loans	-
Personal loans	-
Corporate loans	-
Mixed Asset	13,575
Total	**13,575**
Off-balance sheet	**Amount**
Vehicle / equipment loans	-
Home & home equity loans	-

Off-balance sheet	**Amount**
Personal loans	-
Corporate loans	-
Mixed Asset	-
Total	**-**

The following table shows the break-up of the aggregate amount of securitization exposures retained or purchased in the banking book segregated based on the risk weights as at December 31, 2013:

	Amount
<100% risk weight	
Vehicle/equipment loans	
Home & home equity loans	
Personal loans	
Corporate loans	2,406
Mixed Asset	
Total	**2,406**
Total capital charge[1]	**38.5**
100% risk weight	
Vehicle/equipment loans	
Home & home equity loans	
Personal loans	
Corporate loans	
Mixed Asset	
Total	**-**
Total capital charge[1]	**-**
>100% risk weight	
Vehicle/equipment loans	
Home & home equity loans	
Personal loans	
Corporate loans	
Mixed Asset	
Total	-
Total capital charge[1]	-

1. Represents capital required to be maintained at 8.00% as per OSFI guidelines.

The following table shows the break-up of the aggregate amount of securitization exposures retained or purchased in the trading book segregated based on the risk weights as at December 31, 2013:

	Amount
<100% risk weight	
Vehicle/equipment loans	
Home & home equity loans	
Personal loans	
Corporate loans	
Mixed Asset	
Total	**-**
Total capital charge[1]	**-**
100% risk weight	
Vehicle/equipment loans	
Home & home equity loans	
Personal loans	
Corporate loans	
Mixed Asset	
Total	**-**
Total capital charge[1]	**-**
>100% risk weight	
Vehicle/equipment loans	
Home & home equity loans	
Personal loans	
Corporate loans	
Mixed Asset	13,575
Total	**13,575**
Total capital charge[1]	**13,575**

1. Represents capital required to be maintained at 8.00% as per OSFI guidelines.

4. 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 developed and implemented an Operational Risk Management Policy, which covers the aspects pertaining to minimizing losses due to process failures, flaws in product designs that can expose the Bank to losses due to fraud, impact of failures in technology/systems and continuity in the Bank's operations.

BASEL - PILLAR 3 DISCLOSURES

The Senior Management of the Bank is responsible for the establishment and maintenance of an adequate and effective system of internal controls, a measurement system for assessing the various risks of the Bank's activities, a system for relating risks to the Bank's capital level and appropriate methods for monitoring compliance with laws, regulations, supervisory and internal policies. The Senior Management reports to the Board on these issues. The Bank has implemented its risk and control self-assessment approach to identify and ensure effective control of its operational risks.

The Operational Risk Management Group ("ORMG") under the supervision of Chief Risk Officer would be responsible for providing oversight over operational risk within the Bank, by undertaking the activities of operational risk identification, assessment, measurement, monitoring and reporting to ORC, the Risk Committee and the Board.

To identify operational risks in new products/processes, all such proposals are approved by the Product and Process Approval Committee ("PAC"), comprising senior executives after obtaining inputs from the relevant groups and control functions in the Bank. All PAC proposals are internally rated by the ORMG. ORMG performs the independent challenge process in all areas of operational risk. Independent challenge process at the time of PAC note review is documented in the PAC instructions.

The Bank has developed and implemented a Business Continuity Plan ("BCP"). This plan is designed to facilitate continuity in critical business operations in the event of a disaster or an emergency situation. The BCP has been formulated on the basis of a business impact analysis carried out for the individual groups involving identification of critical activities and determination of their recovery time objectives.

The Bank has outsourced certain activities in the interest of cost and process efficiencies, including mid-office operations for treasury and corporate banking, information technology, corporate operations and trade finance operations to the Parent, terms of which are governed through a master service level agreement ("SLA") and specific SLAs. All these activities are closely monitored under the framework of outsourcing risk with regular monitoring of SLA performance dashboards and any material shortfalls are taken up with the service provider and the same is reported to management and Board level committees.

The Bank has developed and implemented an Outsourcing Policy to mitigate outsourcing risks and ensure the application of a standardized approach for all material outsourcing arrangements entered into by the Bank. All proposed outsourcing arrangements are assessed for their criticality prior to outsourcing. For all such arrangements deemed to be critical, a detailed assessment is conducted and the proposal is approved by the Outsourcing Committee. The performance of each service provider is periodically reviewed and assessment reports are presented to the RC.

Operational risk incidents are reported regularly and transactions resulting in losses are routed through operational risk account. Root cause analysis is carried out for the significant operational risk incidents (beyond the threshold limits) reported and corrective actions are incorporated back into respective processes. The Bank has implemented incident reporting process, which facilitate capturing of operational risk incidents by the employees of the Bank.

The operational risk losses and incident analysis are submitted to the Risk Committee and to the Board on a periodic basis. Operational risk exposures (risk and control self-assessment results, operational risk incidents analysis and key risk indicators) are monitored by the Operational Risk Committee ("ORC") on a regular basis and reported to the Senior Management in the form of dashboards on a periodic basis.

The Bank has adopted the Basic Indicator Approach in determining its operational risk capital requirement.

The capital charge and the corresponding risk weighted assets for operational risk as at December 31, 2013 were CAD 14,393 and CAD 179,913 respectively.

5. Interest Rate Risk

Interest rate risk is defined as the exposure of a bank's financial condition to adverse movements in interest rates. Earnings from interest-sensitive investments and the overall value of the investment portfolio will be impacted by changes in interest rates. The Market Risk Management Policy ("MRMP") currently sets out the measurement process to include the use of repricing gap reports and estimation of the sensitivity of the Bank's net interest income to a 100 bps adverse change in the level of interest rates, defined as Earnings at Risk ("EaR"). The sum of EaR for the Bank over a 4-quarter horizon for an adverse 100 bps parallel shift in interest rates shall not exceed 5% or $20,000 (whichever is lower) of the Bank's current Tier 1 plus Tier 2 capital. At December 31, 2013, the actual limit utilization was 1.03% ($10,200).

Further, the Bank uses various measures, including Duration of Equity ("DoE"), which takes into consideration duration and value of both assets and liabilities. DoE is a measure of interest rate sensitivity, which indicates how much the market value of equity would change if interest rates change by 1%. The Bank has set a maximum limit of (+/-) 5% of Tier 1 capital given a 100 bps change in interest rates and as at December 31, 2013, the actual DoE was 1.21 years, based on which the actual limit utilization was 1.21%.

The Head of Treasury is responsible for managing the interest rate risk of the Bank. It is subject to periodic review by ALCO and the RC of the Board of Directors.

6. Market Risk

Market risk is the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, credit spreads and other asset prices. The Bank has developed and implemented the Market Risk Management Policy ("MRMP"), which covers the policies governing overnight Treasury investments as well as long-term investments, Treasury organization structure, authorization, product guidelines, limits, classification and valuation norms, audit control and reporting.

The Board has delegated the responsibility for market-risk management to the RC and the ALCO within the broad parameters laid down in the MRMP. The ALCO reviews matters pertaining to Investment and Treasury operations and the implementation of risk mitigation measures, and recommends major policy changes governing Treasury activities to the RC. The Committee reviews adherence to OSFI market-risk requirements as well as internal control guidelines and limits. The ALCO ensures that the Bank's balance sheet is managed in accordance with the risk parameters/ prudential limits stipulated by the MRMP. Also, independent control have been formed, with clear functional separation, including:

- Trading i.e. Front Office
- Monitoring and control i.e. Treasury Middle Office and
- Risk Management

The Market Risk Management Group with inputs from the Global Market Risk Management Group recommends changes in risk policies and controls and the processes and methodologies for quantifying and assessing market risks. The Treasury Control & Service Group ("TCSG"), which is independent of business groups, carries out an independent verification of transactions entered into by the Front Office prior to confirmation of each transaction and associated reporting requirements.

The MRMP sets out the deal-size limits for various products. These limits have been set up based on a hierarchy of executives. Various coherence checks are inserted in the system for ensuring that the appropriate deal-size limits are enforced.

The Bank has put in place a Board-approved comprehensive limit framework (as included in MRMP) to prudently measure and manage the market risk profile of the Bank. The material limits include Earnings at Risk limits, Duration of Equity limits, net overnight open position limit, investment limits, hedge limits, transaction size limits, counterparty limits, deal size limits, Foreign Exchange Value at Risk limit, daily MTM volatility triggers, and cumulative stop loss triggers. The TCSG monitors compliance with various internal and regulatory limits and guidelines. The Bank reports exposures and compliance to limits on a monthly basis to ALCO and on a quarterly basis to RC.

7. Liquidity and Funding Risk

Liquidity risk relates to the potential difficulty in accessing financial markets in order to meet payment obligations. Liquidity risk is the potential for losses that could be incurred from holding insufficient liquidity to survive a liquidity contingent stress event, whether name-specific or market-wide in origin. It includes both the risk of unexpected increases in the cost of funding the assets and the risk of being unable to liquidate investments in a timely manner at a reasonable price. The goal of liquidity risk management is to be able, even under adverse conditions, to meet all liability repayments on time and to fund all investment opportunities by raising sufficient funds either by increasing liabilities or by converting assets into cash expeditiously and at reasonable cost.

The Bank has established a Liquidity Management Policy to manage the liquidity and funding risk for the Bank. The Policy details the Bank's tolerance for assuming liquidity risk and methods for identification, measurement, monitoring, controlling and reporting liquidity risk and is reviewed by the Risk Committee of the Board of Directors on an annual basis. The ALCO of the Bank formulates and reviews strategies and provides guidance for management of liquidity risk within the framework laid out in the LMP. The Head of Treasury in consultation with the Chief Risk Officer manages the market risk of treasury positions and the day-to-day liquidity of the Bank.

The Bank proactively manages liquidity risk as a part of its ALM activities. The Bank uses various tools for measurement of liquidity risk including the statement of structural liquidity ("SSL"), liquidity ratios and stress testing through scenario analysis.

Treasury ensures that adequate liquidity is maintained at all times through systematic funds planning and maintenance of liquid investments. The Bank at all times seeks to maintain diversification in the sources and tenor of its funding. The Bank's liabilities are largely drawn from retail deposits, commercial deposits, other financial institutions, inter bank borrowings, securitizations and other funding sources which may become available from time to time.

Senior management monitors the liquidity positions taken on a daily basis. The liquidity position of the Bank including utilization against gap limits and compliance with liquidity ratios as well as results of stress tests are presented to ALCO on a monthly basis and to RC on a quarterly basis.

The Bank has also framed a Liquidity Contingency Plan (“LCP”), which serves as a framework for early identification and calibrated action in the event of tight liquidity conditions. The LCP includes various indicators which are monitored regularly, and lays down the mechanism for escalation, remedial action and crisis management until return to normalcy.

V. Remuneration Process Disclosure

The Bank follows a conservative and comprehensive approach for Compensation Management.

1. Governance & Board Involvement

The Board Governance & Remuneration Committee (“BGRC”) of the Bank is responsible for the overview of the Compensation processes, policies and practices. Further, the BGRC is also mandated with finalizing remuneration of all Management Committee members, including the President & CEO of the Bank.

The BGRC reviews and approves all compensation decisions of the Bank as submitted by the Human Resources Department. This is in line with current regulatory recommendations with regard to the BGRC’s involvement in approving remuneration for directors and the members of the Bank’s senior management.

The BGRC reviews the compensation strategy adopted by the Bank in context of regulatory environment and changing market dynamics at periodic intervals.

The BGRC is chaired by an independent Director and none of the members of the BGRC of the Bank holds any executive position with the Bank. The BGRC comprises members who chair the various control committees of the Bank including Risk and Audit.

2. Performance and Pay

The Bank follows the principles of a balanced scorecard in designing its performance management system. An appropriate focus is given to goal sheets to ensure a balance of financial goals with non-financial goals. The non-financial goals cover relevant areas of customer service, process improvement, adherence to both risk and compliance norms and employee capability building.

Staff engaged in the control functions including Compliance, Risk, Finance, Audit and others do not carry business profit targets in their respective goal sheets and hence, are compensated independently of the business profit achievements. Their compensation is dependent on achievement of key results in their respective domain.

Performance bonus is strongly linked to corporate performance and individual performance. For employees carrying business performance targets, business performance is also looked at along with corporate performance and individual performance in order to determine the quantum of performance bonus. The Bank’s revenue target is approved by the Board, which periodically reviews the performance against the target and the means adopted for performance.

3. Design and Structure of Compensation

Compensation is aligned to both financial and non-financial indicators of performance. An appropriate focus is given to performance on parameters like customer service, process improvement, adherence to risk and compliance norms and employee capability building.

Further, employee compensation takes into account a balanced mix of external market pay and internal equity considerations. The compensation outlay is based on cost and income ratios for the Bank.

The Bank has a judicious and prudent approach to compensation and does not use compensation as the only lever to attract and retain employees. No single business or functional leader determines the compensation structure. Good governance dictates a BGRC-approved and supervised compensation approach.

The Bank does not encourage any kind of guaranteed bonus.

The Bank follows a bonus distribution method based on individual performance ratings. The performance ratings-based bonus distribution matrix is determined by the BGRC and the Bank does not follow a business-wise bonus pool concept. No single individual determines the quantity of bonus available to a person. The performance rating of an individual is decided by skip levels and this determines in each case the individual's payout as a percentage of one's base salary.

The BGRC reviews the performance and approves the rate of bonus to be paid in each case, the increments to be given to the President & CEO and to members of the Management Committee and also the bonus rates to be paid to various levels as per the performance of the Bank, business group and each individual employee.

The BGRC approves the threshold organisational performance gates for bonus to be paid. The Committee may also fix the annual bonus as nil if the data and analysis show that the performance is far below the expected levels.

4. Deferral of Variable Component Including Risk Adjustments

In each case, total compensation is a prudent mix of fixed pay and variable pay. The variable pay is higher at senior levels and lower at junior levels. The variable compensation will consist of performance bonus and Employee Stock Options ("ESOS").

At senior levels, the Bank pays 100% of the deferred variable remuneration in ESOS for a vesting period spanning four years with a rear load at 20%, 20%, 30%, 30% respectively vesting each year after the first year of grant. (In this regard, it is noted that the Bank's financial year ends in March of every year). This is paid based on compliance with performance norms both in financial and non-financial areas and does not favour inappropriate risk-taking. As a result, this approach aligns senior management interests with those of the shareholders. All non-vested options lapse in the event of termination of the employment.

The ESOS program aims at achieving the twin objectives of aligning senior and middle management compensation to long-term shareholders' interests and the retention of employees identified as Talent (i.e., High Potential) under the Talent Management System. The ESOS program aims at aligning senior management behavior to the long-term view of the Bank's performance and also to create individual stakes in the Bank's success.

The vesting schedule of the ESOS program is spread over a period of four years to fully realise the impact of the decisions taken at senior management levels and the real value created for the shareholders.

The Bank is not a listed company in Canada, but employees are nonetheless granted options under the ESOS program of ICICI Bank Limited, the Parent Bank. This program is approved by the shareholders of ICICI Bank Limited. The BGRC reviews and evaluates the levels for grant under the ESOS program.

The Bank follows a conservative approach to cash bonus payouts. The quantum of bonus for an employee does not exceed 60% of the base salary and is paid on an annual basis. In an exceptional performance event if the quantum of bonus for an employee exceeds 60% of the base salary, the bonus payout will be deferred over a period of 2 years which will be reviewed and approved by the BGRC.

The audited financial statements of the Bank also contain the requisite disclosures in respect of the remuneration paid to the key management personnel (“KMP”). KMP are those persons who have the authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly, and comprise the directors of the Bank, the Chief Executive Officer ("CEO") and all direct reports of the CEO. The definition of KMP in IAS 24 Related Party Disclosures, specifies a role and is not limited to a person. KMP include directors (both executive and non-executive) and other members of the management team with significant authority and responsibility for planning, directing and controlling the Bank's activities.

The following table summarizes the compensation paid to the KMP in respect of short-term and other post-employment benefits, during the year ended December 31, 2013:

	Amount	
	2013	**2012**
Short-term employee benefits	2,808	2,248
Post-employment benefits	84	58

In addition, personnel expenses include the cost of the ESOS program. During the year ended December 31, 2013, an amount of $565 (2012 - $425) has been expensed as employee benefits and recorded as paid-in-capital.