The Hongkong and Shanghai Banking Corporation Limited India Branches

Annual Report and Accounts 2011-12

HSBC

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Senior executives in India

Naina Lal Kidwai	- Country Head India, Director HSBC Asia-Pacific
Stuart P Milne	- Chief Executive Officer
Devesh Mathur	- Chief Operating Officer
Richard Collie	- Chief Financial Officer
Stephen O'Leary	- Chief Risk Officer
Sunil Sanghai	- Managing Director and Head of Global Banking
Hitendra Dave	- Managing Director and Head of Global Markets
Sandeep Uppal	- Head of Commercial Banking
Gannesh Bharadhwaj	- Head of Retail Banking and Wealth Management
Shantanu Ambedkar	- Managing Director and Head of Private Bank
Minari Shah	- Head of Group Communications
Ravi Menon	- Head of Corporate Strategy and Planning
Vikram Tandon	- Head of Human Resources
Tarun Balram	- Managing Director and Head of Client Management
Abadaan Viccaji	- Head of Compliance
Jasmine Batliwalla	- General Counsel

Auditors

B S R & Co, Chartered Accountants

Auditors' report on the financial statements of The Hongkong and Shanghai Banking Corporation Limited – India branches under Section 30 of the Banking Regulation Act, 1949

The Chief Executive Officer

The Hongkong and Shanghai Banking Corporation Limited – India Branches

We have audited the attached balance sheet of The Hongkong and Shanghai Banking Corporation Limited - India branches ('the Bank') as at 31 March 2012 and the related profit and loss account and the cash flow statement annexed thereto for the year ended on that date. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

The balance sheet and the profit and loss account have been drawn up in accordance with the provisions of Section 29 of the Banking Regulation Act, 1949 read with sub-regulation (1), (2) and (5) of Section 211 and sub-section (5) of section 227 of the Companies Act, 1956.

In our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required under the Banking Regulation Act, 1949 and the Companies Act, 1956 in the manner so required for banking companies and give a true and fair view:

a. In the case of the balance sheet, of the state of affairs of the Bank as at 31 March 2012

b. In the case of the profit and loss account, of the profit for the year ended on that date

c. In the case of cash flow statement, of the cash flows for the year ended on that date

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

We further report that:

- We have obtained all information and explanations, which to the best of our knowledge and belief, were necessary for the purpose of the audit and have found them to be satisfactory
- The financial accounting systems of the Bank are centralised and therefore, accounting returns for the purpose of preparing financial statements are not required to be submitted by the branches
- The transactions of the Bank, which have come to our notice, have been within the powers of the Bank
- In our opinion, the Bank has maintained proper books of account as required by the law insofar as appears from our examination of those books
- The balance sheet, the profit and loss account and cash flow statement dealt with by this report are in agreement with the books of account
- In our opinion, and to the best of our information and according to the explanation given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required for banking companies and guidelines issued by Reserve Bank of India from time to time
- The requirements of Section 274(1)(g) of the Companies Act, 1956 are not applicable considering the Bank is a branch of The Hongkong and Shanghai Banking Corporation Limited, which is incorporated and registered in Hong Kong Special Administrative Region

For **B S R & Co**

Chartered Accountants

Firm's Registration No: 101248W

N Sampath Ganesh
Partner
Membership No: 042554

Mumbai
22 June 2012

Balance sheet for India branches

as at 31 March

(Currency: Indian rupees in thousands)

	Schedules	2012	2011
CAPITAL AND LIABILITIES			
Capital	*1*	**44,991,660**	44,991,660
Reserves and surplus	*2*	**104,545,247**	91,883,062
Deposits	*3*	**614,233,213**	541,067,115
Borrowings	*4*	**104,774,729**	50,263,098
Other liabilities and provisions	*5*	**223,697,929**	183,279,813
Total		**1,092,242,778**	911,484,748

ASSETS			
Cash and balances with Reserve Bank of India	*6*	**39,295,649**	48,578,316
Balances with banks and money at call and short notice	*7*	**76,178,823**	33,543,694
Investments	*8*	**403,238,487**	372,790,845
Advances	*9*	**355,122,822**	274,006,211
Fixed assets	*10*	**8,420,477**	8,744,309
Other assets	*11*	**209,986,520**	173,821,373
Total		**1,092,242,778**	911,484,748
Contingent liabilities	*12*	**10,096,856,027**	9,913,198,050
Bills for collection		**128,621,115**	93,972,841
Significant accounting policies and notes to accounts	*18*		
Schedules referred to herein form an integral part of the balance sheet.			

As per our report of even date attached

For **B S R & Co**
Chartered Accountants
Firm's Registration No: 101248W

N Sampath Ganesh
Partner
Membership No: 042554

For The Hongkong and Shanghai Banking Corporation Limited

Richard Collie
Chief Financial Officer

Stuart P Milne
Chief Executive Officer, India

Mumbai
22 June 2012

Profit and loss account for India branches

for the year ended 31 March

(Currency: Indian rupees in thousands)

	Schedules	2012	2011
INCOME			
Interest earned	*13*	**61,962,603**	51,949,586
Other income	*14*	**22,007,660**	17,886,488
Total		**83,970,263**	69,836,074
EXPENDITURE			
Interest expended	*15*	**24,505,025**	18,591,228
Operating expenses	*16*	**24,182,963**	21,909,495
Provisions and contingencies	*17*	**15,405,573**	14,059,416
Total		**64,093,561**	54,560,139
Net profit for the year		**19,876,702**	15,275,935
Profit brought forward		**18,616,495**	15,468,006
Total		**38,493,197**	30,743,941
APPROPRIATIONS			
Transfer to statutory reserve		**4,969,176**	3,818,984
Transfer to investment reserve		**704,987**	297,636
Transfer to specific reserve		**237,204**	213,348
Transfer to remittable surplus retained in India for capital to risk-weighted assets ratio (CRAR) requirements		**3,790,834**	7,797,478
Profit remitted to Head Office		**7,670,528**	-
Transfer to capital reserve - surplus on sale of immovable properties		**236,150**	-
Balance carried over to balance sheet		**20,884,318**	18,616,495
Total		**38,493,197**	30,743,941
Significant accounting policies and notes to accounts	*18*		
Schedules referred to herein form an integral part of the profit and loss account			

As per our report of even date attached

For **B S R & Co**
Chartered Accountants
Firm's Registration No: 101248W

For The Hongkong and Shanghai Banking Corporation Limited

N Sampath Ganesh
Partner
Membership No: 042554

Richard Collie
Chief Financial Officer

Stuart P Milne
Chief Executive Officer, India

Mumbai
22 June 2012

Cash flow statement for India branches

for the year ended 31 March

(Currency: Indian rupees in thousands)

		2012	2011
CASH FLOW FROM OPERATING ACTIVITIES			
Net profit before taxes		**35,451,364**	27,407,719
Adjustments for:			
Depreciation on fixed assets		**503,144**	719,992
(Profit) on revaluation of provision for depreciation on investments		**(1,621,331)**	(686,944)
Increase in provision for advances		**1,216,761**	2,273,030
Other provisions		**235,481**	341,546
(Profit)/Loss on sale of fixed assets		**(233,898)**	2,052
(Positive) revaluation of fixed assets		**-**	(18,399)
		35,551,521	30,038,996
Adjustments for:			
(Increase)/Decrease in investments (excluding held to maturity securities)		**(28,826,311)**	36,000,655
(Increase) in advances		**(82,333,372)**	(41,531,571)
Increase/(Decrease) in borrowings		**54,511,631**	(8,945,041)
Increase/(Decrease) in deposits		**73,166,098**	(16,411,132)
(Increase) in other assets		**(35,345,103)**	(6,396,799)
Increase in other liabilities and provisions		**40,182,635**	16,641,119
		21,355,578	(20,642,769)
Direct taxes paid		**(16,394,708)**	(13,327,575)
Net cash generated from/(used in) operating activities	*(A)*	40,512,391	(3,931,348)

CASH FLOW FROM INVESTING ACTIVITIES			
Reduction in held to maturity securities		**-**	4,786,100
Purchase of fixed assets		**(198,848)**	(278,522)
Proceeds from sale of fixed assets		**709,447**	5,759
Net cash generated from investing activities	*(B)*	**510,599**	4,513,337

(Currency: Indian rupees in thousands)

		2012	2011
CASH FLOW FROM FINANCING ACTIVITIES			
Profit remitted to Head Office		**(7,670,528)**	-
Net cash (used in) financing activities	*(C)*	**(7,670,528)**	-
Net increase in cash and cash equivalents	*(A) + (B) + (C)*	**33,352,462**	581,989
Cash and cash equivalents at 1 April		**82,122,010**	81,540,021
Cash and cash equivalents at 31 March		**115,474,472**	82,122,010
Note: Cash and cash equivalents comprise cash in hand and in ATMs, balances with Reserve Bank of India and balances with banks and money at call and short notice (refer schedule 6 and 7 of the balance sheet).			

As per our report of even date attached

For **B S R & Co**
Chartered Accountants
Firm's Registration No: 101248W

N Sampath Ganesh
Partner
Membership No: 042554

For The Hongkong and Shanghai Banking Corporation Limited

Richard Collie
Chief Financial Officer

Stuart P Milne
Chief Executive Officer, India

Mumbai
22 June 2012

Schedules forming part of the balance sheet of India branches

as at 31 March

(Currency: Indian rupees in thousands)

		2012	2011
1. CAPITAL			
I	Amount of deposit kept with the Reserve Bank of India under Section 11(2) (b) of the Banking Regulation Act, 1949.	**19,734,036**	15,913,356
II	**Capital**		
	Opening balance	**44,991,660**	44,991,660
		44,991,660	44,991,660

		2012	2011
2. RESERVES AND SURPLUS			
I	**Statutory reserve**		
	Opening balance	**19,633,341**	15,814,357
	Additions during the year	**4,969,176**	3,818,984
		24,602,517	19,633,341
II	**Capital reserves - surplus on sale of immovable properties**	**1,066,566**	1,066,566
	Transfer from profit and loss account and revaluation reserve	**664,958**	-
		1,731,524	1,066,566
III	**Capital reserves**		
	Opening balance	**13,261,565**	13,261,565
		13,261,565	13,261,565
IV	**Remittable surplus retained in India for capital to risk-weighted assets ratio (CRAR) requirements**		
	Opening balance	**31,551,338**	23,753,860
	Add: Transfer from profit and loss account *(see schedule 18 note 5.1)*	**3,790,834**	7,797,478
		35,342,172	31,551,338
V	**Revaluation reserve**		
	Opening balance	**6,877,300**	6,630,865
	Add: Revaluation of premises net of depreciation on revaluation uplift	**456,011**	246,435
	Less: Transfer to capital reserve-surplus on sale of immovable properties	**(428,808)**	-
		6,904,503	6,877,300
VI	**Investment reserve**		
	Opening balance	**297,636**	-
	Transfer from the profit and loss account	**704,987**	297,636
		1,002,623	297,636
VII	**Specific reserve** *(see schedule 18 note 5.5)*		
	Opening balance	**578,821**	365,473
	Additions during the year	**237,204**	213,348
		816,025	578,821

(Currency: Indian rupees in thousands)

		2012	2011
VIII	**Balance in profit and loss account**	**20,884,318**	18,616,495
	Total (I+II+III+IV+V+VI+VII+VIII)	**104,545,247**	91,883,062

3. DEPOSITS

		2012	2011
A.	**I. Demand deposits**		
	i. From banks	**2,407,228**	1,246,610
	ii. From others	**168,157,746**	156,048,130
	Total i and ii	**170,564,974**	157,294,740
	II. Savings bank deposits	**116,602,776**	113,253,000
	III. Term deposits		
	i. From banks	**16,415,703**	7,949,775
	ii. From others	**310,649,760**	262,569,600
	Total i and ii	**327,065,463**	270,519,375
	Total (I+II+III)	**614,233,213**	541,067,115
B.	I. Deposits of branches in India	**614,233,213**	541,067,115
	II. Deposits of branches outside India	**-**	-
	Total (I+II)	**614,233,213**	541,067,115

4. BORROWINGS

		2012	2011
I	**Borrowings in India**		
	i. Reserve Bank of India	**49,000,000**	31,150,000
	ii. Other banks	**17,604**	-
	iii. Other institutions and agencies	**-**	-
	Total i, ii and iii	**49,017,604**	31,150,000
II	**Borrowings outside India**	**55,757,125**	19,113,098
	Total (I+II)	**104,774,729**	50,263,098
	Secured borrowings included in I and II above	**49,000,000**	31,000,000

5. OTHER LIABILITIES AND PROVISIONS

		2012	2011
I	Bills payable	**3,784,455**	7,439,075
II	Inter-office adjustments branches in India (net)	**-**	-
III	Interest accrued	**7,884,199**	7,007,652
IV	Provision towards standard assets *(see schedule 18 Note 5.6 (ai))*	**5,270,957**	4,994,109
V	Others (including provisions)	**206,758,318**	163,838,977
	Total (I+II+III+IV+V)	**223,697,929**	183,279,813

(Currency: Indian rupees in thousands)

		2012	2011
6. CASH AND BALANCES WITH RESERVE BANK OF INDIA			
I	Cash in hand and in ATMs (including foreign currency notes)	**1,095,077**	1,060,490
II	Balances with the Reserve Bank of India		
	i. In current account	**38,200,572**	47,517,826
	ii. In other accounts	**-**	-
	Total i and ii	**38,200,572**	47,517,826
	Total (I+II)	**39,295,649**	48,578,316

		2012	2011
7. BALANCES WITH BANKS AND MONEY AT CALL AND SHORT NOTICE			
I	**In India**		
	i. Balances with banks		
	a. In current accounts	**4,284,886**	3,427,569
	b. In other deposit accounts	**16,534,375**	7,128,425
	Total a and b	**20,819,261**	10,555,994
	ii. Money at call and short notice		
	a. With banks	**3,750,000**	9,684,610
	b. With other institutions	**14,239,447**	266,254
	Total a and b	**17,989,447**	9,950,864
	Total i and ii	**38,808,708**	20,506,858
II	**Outside India**		
	i. In current accounts	**11,932,615**	913,986
	ii. In other deposit accounts	**-**	-
	iii. Money at call and short notice	**25,437,500**	12,122,850
	Total i, ii and iii	**37,370,115**	13,036,836
	Total (I+II)	**76,178,823**	33,543,694

(Currency: Indian rupees in thousands)

		2012	2011
8. INVESTMENTS			
A.	**Investments in India in**		
	i. Government securities	**212,475,908**	206,581,353
	ii. Other approved securities	**-**	10,000
	iii. Shares - fully paid	**121,103**	121,103
	iv. Debentures and bonds	**29,836,425**	26,149,058
	v. Subsidiaries and/or joint ventures	**200**	500
	vi. Others (CDs, SIDBI deposit etc)	**160,804,851**	139,928,831
	Total i, ii, iii, iv, v and vi	**403,238,487**	372,790,845
B.	**Gross value of investments in India**	**406,756,574**	377,930,263
	Aggregate provision for depreciation in India	**(3,518,087)**	(5,139,418)
	Net value of investments in India	**403,238,487**	372,790,845

9. ADVANCES			
A.	i. Bills purchased and discounted #	**62,411,812**	24,638,524
	ii. Cash credits, overdrafts and loans repayable on demand	**177,614,358**	131,243,262
	iii. Term loans	**115,096,652**	118,124,425
	Total i, ii and iii	**355,122,822**	274,006,211
B.	i. Secured by tangible assets (including advances against book debt)	**170,068,796**	147,092,558
	ii. Covered by bank/government guarantees	**35,929,847**	9,223,080
	iii. Unsecured	**149,124,179**	117,690,573
	Total i, ii and iii	**355,122,822**	274,006,211
C.	i. Priority sectors (including export finance)	**107,425,174**	96,042,661
	ii. Public sector	**-**	171,912
	iii. Banks	**1,100,000**	-
	iv. Others	**246,597,648**	177,791,638
	Total i, ii, iii and iv	**355,122,822**	274,006,211
	# net of bills rediscounted amounting to Rs. 0.6 ('000) [previous year Rs. 0.6 ('000)]		

(Currency: Indian rupees in thousands)

		2012	2011
10. FIXED ASSETS			
I	**Premises (including leasehold improvements)** *(see Schedule 18 note 5.2)*		
	Cost at 1 April (including revaluation)	**9,517,827**	9,176,065
	Additions during the year	**27,373**	78,073
	Revaluation of premises during the year	**457,857**	264,474
	Deductions during the year	**(447,753)**	(785)
		9,555,304	9,517,827
	Depreciation to date	**(1,506,248)**	(1,323,091)
	Net book value of premises (including leasehold improvements)	**8,049,056**	8,194,736
II	**Other fixed assets (including furniture and fixtures)**		
	Cost at 1 April	**5,298,721**	5,337,212
	Additions during the year	**171,475**	200,449
	Deductions during the year	**(76,092)**	(238,940)
		5,394,104	5,298,721
	Depreciation to date	**(5,022,683)**	(4,749,148)
	Net book value of other fixed assets (including furniture and fixtures)	**371,421**	549,573
	Total (I+II)	**8,420,477**	8,744,309

11. OTHER ASSETS			
I	Inter-office adjustments branches in India (net)	**-**	-
II	Interest accrued	**5,216,291**	4,223,931
III	Tax paid in advance/tax deducted at source (net)	**5,565,714**	4,745,668
IV	Deferred tax (net)	**5,510,372**	6,365,034
V	Stationery and stamps	**5,843**	5,168
VI	Non-banking assets acquired in satisfaction of claims	**-**	-
VII	Others	**193,688,300**	158,481,572
	Total (I+II+III+IV+V+VI+VII)	**209,986,520**	173,821,373

(Currency: Indian rupees in thousands)

		2012	2011
12. CONTINGENT LAIBILITIES			
I	Claims against the bank not acknowledged as debts (including tax matters) *(see Schedule 18 note 5.4)*	**3,340,173**	3,357,697
II	Liability for partly paid investments	**500**	500
III	Liability on account of outstanding forward exchange and derivative contracts		
	i. Forward contracts	**4,067,384,917**	2,373,890,362
	ii. Currency options	**425,479,567**	498,424,118
	iii. Derivative contracts	**5,253,539,874**	6,731,215,046
	Total i, ii and iii	**9,746,404,358**	9,603,529,526
IV	Guarantees given on behalf of constituents		
	i. In India	**82,095,098**	74,941,027
	ii. Outside India	**19,947,187**	16,961,594
	Total i and ii	**102,042,285**	91,902,621
V	Acceptances, endorsements and other obligations	**199,222,216**	174,405,885
VI	Bills rediscounted	**1**	1
VII	Other items for which the bank is contingently liable	**45,846,494**	40,001,820
	Total (I+II+III+IV+V+VI+VII)	**10,096,856,027**	9,913,198,050

Schedules forming part of the profit and loss account of India branches

for the year ended 31 March

(Currency: Indian rupees in thousands)

		2012	2011
13. INTEREST EARNED			
I	Interest/Discount on advances/bills	**27,499,849**	24,095,058
II	Income on investments	**33,583,830**	27,243,643
III	Interest on balances with Reserve Bank of India and other inter-bank funds	**808,708**	547,754
IV	Others	**70,216**	63,131
	Total (I+II+III+IV)	**61,962,603**	51,949,586

14. OTHER INCOME			
I	Commission, exchange and brokerage (net)	**10,340,631**	10,588,370
II	Loss on sale/maturity of investments (net)	**(1,819,160)**	(6,453,242)
III	Profit/(Loss) on disposal of land, buildings and other assets (net)	**233,898**	(2,052)
IV	Profit on exchange transactions (net)	**23,331,690**	11,761,835
V	Miscellaneous income [including (losses)/income on derivative products]	**(10,079,399)**	1,991,577
	Total (I+II+III+IV+V)	**22,007,660**	17,886,488

15. INTEREST EXPENDED			
I	Interest on deposits	**23,279,216**	17,602,056
II	Interest on Reserve Bank of India/inter-bank borrowings	**1,165,167**	899,545
III	Others (including interest paid on subordinated debt)	**60,642**	89,627
	Total (I+II+III)	**24,505,025**	18,591,228

(Currency: Indian rupees in thousands)

		2012	2011
16. OPERATING EXPENSES			
I	Payments to and provisions for employees	**9,398,630**	8,743,863
II	Rent, taxes and lighting	**1,340,780**	1,276,615
III	Printing and stationery	**124,811**	135,643
IV	Advertisement and publicity	**650,709**	1,158,069
V	Depreciation on Bank's property	**503,144**	719,992
VI	Auditors' fees and expenses	**4,000**	4,500
VII	Law charges	**529,278**	203,008
VIII	Postage, telegrams, telephones etc	**464,224**	570,767
IX	Repairs and maintenance	**566,843**	430,372
X	Insurance	**792,130**	787,080
XI	Other expenditure *(see Schedule 18 note 5.6 (ae))*	**9,808,414**	7,879,586
	Total (I+II+III+IV+V+VI+VII+VIII+IX+X+XI)	**24,182,963**	21,909,495

17. PROVISIONS AND CONTINGENCIES			
I	Provision for advances *(see Schedule 18 note 5.6 (c))*	**1,216,761**	2,273,030
II	Other provisions *(see Schedule 18 note 5.6 (c))*	**235,481**	341,546
III	Taxation charge		
	- Current tax expense	**14,720,000**	11,080,500
	- Deferred tax charge	**854,662**	1,051,284
		15,574,662	12,131,784
IV	(Release) of provision for depreciation on investments *(see Schedule 18 note 5.6 (c) and (d))*	**(1,621,331)**	(686,944)
	Total (I+II+III+IV)	**15,405,573**	14,059,416

Schedule 18 – Significant accounting policies and notes to accounts

1. Background

The financial statements for the year ended 31 March 2012 comprise the accounts of the India branches of The Hongkong and Shanghai Banking Corporation Limited ('the Bank'), which is incorporated and registered in Hong Kong Special Administrative Region ('SAR'). The Bank's ultimate holding company is HSBC Holdings plc, which is incorporated in the United Kingdom.

2. Basis of preparation

The financial statements are prepared and presented under the historical cost convention and accrual basis of accounting, except where otherwise stated, and in accordance with the generally accepted accounting principles ('GAAP') and statutory requirements prescribed under the Banking Regulation Act, 1949, circulars and guidelines issued by the Reserve Bank of India ('RBI'), Accounting Standards ('AS') prescribed by the Companies (Accounting Standards) Rules, 2006 (as amended), to the extent applicable and current practices prevailing within the banking industry in India. The financial statements are presented in Indian rupees rounded off to the nearest thousand unless otherwise stated.

3. Use of estimates

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

4. Significant accounting policies

4.1 Investments

a. Accounting and classification

Investments are recognised using the value date basis of accounting. In compliance with RBI guidelines, all investments, which cover both debt and equity securities, are categorised as 'Held-for-trading' ('HFT'), 'Available-for-sale' ('AFS') or 'Held-to-maturity' ('HTM'). However, for the purpose of disclosure in the balance sheet, investments are classified as disclosed in Schedule 8 ('Investments').

b. Acquisition cost

In determining acquisition cost of an investment, brokerage and commission paid at the time of acquisition are charged to revenue. Further, cost of investments is determined based on weighted average cost method.

c. Valuation

Investments categorised under AFS and HFT are marked-to-market on a monthly and daily basis respectively. Net depreciation, if any, in any classification mentioned in Schedule 8 ('Investments') is recognised in the profit and loss account. The net appreciation if any, under each classification is ignored, except to the extent of depreciation previously provided. The book value of individual securities is not changed consequent to periodic valuation of investments.

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

Investments classified under the HTM category are carried at their acquisition cost and any premium on acquisition is amortised on a straight line basis over the remaining period to maturity. Where in the opinion of management, a diminution, other than temporary in the value of investments classified under HTM has taken place, suitable provisions are made.

Treasury bills, commercial paper, certificates of deposit and zero coupon bonds being discounted instruments, are valued at carrying cost.

4. Significant accounting policies *(Continued)*

4.1 Investments (Continued)

d. Transfer between categories

Transfer of investments between categories is accounted for in accordance with RBI guidelines vide master circular DBOD No. BP BC 19/21.04.141/2011-12, from 1 July 2011 as follows:

i. Investments classified as AFS/HFT are transferred to HTM category at the lower of book value (weighted average) and market value

ii. Investments classified as HTM are transferred to AFS/HFT categories as follows:
- Investments originally placed in HTM at a discount, are transferred to AFS/HFT category at the acquisition price/book value (weighted average) and
- Investments originally placed in HTM at a premium, are transferred to AFS/HFT category at the amortised cost (weighted average)

iii. Investments classified as AFS/HFT are transferred to HFT/AFS category at book value (weighted average) and the provisions for the accumulated depreciation, if any, held is transferred to the provisions for depreciation against HFT/AFS

e. Accounting for repos/reverse repos (including liquidity adjustment facility)

Repurchase (repos) and reverse repurchase (reverse repos) transactions are accounted for as collateralised borrowing and lending respectively with an agreement to repurchase on agreed terms in accordance with RBI guidelines vide master circular DBOD No. BP.BC.19/21.04.141/2011-12 dated 1 July 2011. The difference between the consideration amounts of first and second legs is recognised as interest income/expense over the period of the transaction in the profit and loss account. The transactions with RBI under the liquidity adjustment facility (LAF) are also accounted for as borrowing and lending transactions.

4.2 Advances

Advances are stated net of provisions and interest in suspense.

Non-performing advances are identified by periodic appraisals of the portfolio by management or in accordance with RBI guidelines, whichever is earlier.

Specific provisions are made on a case by case basis based on management's assessment of the degree of impairment of the advances (including mortgage loans but excluding other homogeneous retail loans), subject to the minimum provisioning levels prescribed by the RBI. Where there is no longer any realistic prospect of recovery, the outstanding advance is written off.

Subject to the minimum provisioning levels prescribed by the RBI, provision on homogeneous loans relating to retail business (excluding mortgage loans) are assessed on a portfolio basis using the historical loss or net flow rate methods.

General provision is made in line with the existing RBI guidelines and included in Schedule 5 ('Other Liabilities and Provisions').

The sale of non-performing advances is accounted for in accordance with the RBI guidelines on 'Purchase/Sale of Non-Performing Financial Assets', wherein if the sale of non-performing advances is for a value higher than the net book value (NBV) of the loans, the excess provision is not reversed but is held back to meet the shortfall/loss on account of sale of other non-performing advances and classified as additional standard asset provision subject to an overall ceiling of 1.25% of risk weighted asset. In case of a sale at a value lower than NBV, the shortfall is recognised in the profit and loss account in the year of sale after setting off any earlier provision held back on sale of other non-performing advances.

The sale of financial assets to Securitisation Company (SC)/Reconstruction Company (RC) is accounted for in accordance with RBI guidelines on 'Sale of financial assets to SC/RC', wherein if the sale to SC/RC is for a value higher than the NBV, the excess provision is not reversed but is held back to meet shortfall/loss on sale of other financial assets to SC/RC. In case of sale at a value below the NBV, the shortfall is recognised in the profit and loss account in the year of sale after setting off any earlier provision held back on sale to SC/RC.

4.3 Transactions involving foreign exchange

Transactions denominated in foreign currencies are recorded at rates prevailing on the date of the transaction. Exchange differences arising on foreign currency transactions settled during the period are recognised in profit and loss account of the period. Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are translated at closing rates notified by Foreign Exchange Dealers Association of India ('FEDAI') and resultant exchange differences are recognised in the profit and loss account. Outstanding spot and forward

4. Significant accounting policies *(Continued)*

4.3 Transactions involving foreign exchange (Continued)

exchange contracts and foreign currency swaps are revalued based on the period end exchange rates notified by FEDAI. The forward exchange contracts are present valued using appropriate discount rates and the resultant gains or losses are recognised in the profit and loss account.

Contingent liabilities denominated in foreign currencies are disclosed at closing rates of exchange notified by FEDAI.

4.4 Derivative financial instruments

Derivatives in the form of forwards, swaps and option contracts are undertaken by the Bank in the foreign exchange and interest rate markets.

Accounting for these instruments is dependent upon whether the transactions are undertaken for trading or hedging purposes. Trading transactions include transactions undertaken for market making, to service customer risk management needs and for the Bank's proprietary purposes. Hedging transactions are entered into as part of the Bank's risk management strategy relating to the Bank's assets, liabilities, positions or cash flows.

Trading transactions are marked-to-market on a daily basis and the unrealised losses or gains are recognised into the profit and loss account as 'Other Income'. Currency Options are marked-to-market using market values after considering the premium received or paid. The profit or loss on revaluation is recorded in the Profit and Loss account and is included in 'Other assets' or 'Other Liabilities'. Accordingly, premium received and paid is recognised in the Profit and Loss account upon expiry or exercise of the options. The Bank's mark-to-market valuations reflect consideration of certain factors not captured within core valuation models, market liquidity and depth and any parameters not fully observable in the market.

Derivatives designated as a hedge are accounted for in line with the accounting of the underlying asset or liability. Where the underlying asset or liability is accounted for on an accrual basis the derivative is also accounted for on accrual basis. Where the designated asset or liability is carried at lower of cost or market value in the financial statements the derivatives are marked-to-market with the resulting gain or loss recorded as an adjustment to the market value of the designated asset or liability.

4.5 Securitisation

The Bank may enter into securitisation transactions wherein corporate/retail loans are sold to a Special Purpose Vehicle ('SPV'). These securitisation transactions are accounted for in accordance with the RBI guidelines on 'Securitisation of Standard Assets' and other relevant guidelines/notifications issued by the RBI from time to time.

Securitised assets are derecognised upon sale if the Bank surrenders control over the contractual rights that comprise the financial asset. In respect of credit enhancements provided or recourse obligations accepted by the Bank, appropriate provision/disclosure is made at the time of sale in accordance with AS 29 – 'Provisions, contingent liabilities and contingent assets'.

Gains on securitisations, being the excess of the consideration received over book value of the assets and provisions towards expected costs including servicing costs and expected delinquencies are amortised over the life of the securities issued by the SPV. Losses are recognised immediately.

Sales and transfers that do not meet the criteria for surrender of control are accounted for as secured borrowings.

4.6 Income recognition

Interest income is recognised in the profit and loss account as it accrues, except in the case of interest on non-performing advances.

Given the uncertainty ascribed to non-performing advances, interest thereon is only recognised in the profit and loss account on a receipt basis in accordance with RBI master circular DBOD.No.BP.BC.12/21.04.048/2011-12 dated 1 July 2011 on income recognition, asset classification and provisioning pertaining to advances.

Fee and commission income are recognised on an accrual basis. Commission on guarantees and letters of credit are recognised over the life of the instrument.

4.7 Employee benefits

The accounting policy followed by the Bank in respect of its Employee Benefit Schemes is set out below:

a. *Provident fund*

The Bank contributes to recognised provident funds, which are defined contribution schemes. The contributions are accounted for on an accrual basis and recognised in the profit and loss account.

4. Significant accounting policies *(Continued)*

4.7 Employee benefits (Continued)

b. Gratuity

The Bank provides for gratuity liability, which is a defined benefit scheme, based on an actuarial valuation using the projected unit credit method at the balance sheet date carried out by an independent qualified actuary.

c. Pension

The Bank has a pension scheme, which is a defined benefit plan for employees who joined prior to 31 March 2002. Employees joining after 31 March 2002 up to introduction of new salary terms in 2004 are covered under a pension scheme, which is a defined contribution plan. For staff opting for new salary terms, the pension benefits have been frozen based on the salary and service on the date of conversion. In respect of employees covered under the defined benefit plan, the Bank provides for the pension liability based on an actuarial valuation using the projected unit credit method at the balance sheet date carried out by an independent qualified actuary. In respect of other employees, the contributions are accounted for on an accrual basis and recognised in the profit and loss account.

d. Compensated absences

The Bank provides for its compensated absences liability based on an actuarial valuation at the balance sheet date conducted by an independent qualified actuary.

e. Actuarial gains/losses

Actuarial gains/losses are recognised immediately in the profit and loss account.

f. Employee share-based payments

Eligible employees of the Bank have been granted options/awards of equity shares of the ultimate holding company HSBC Holdings Plc. As per the schemes, these options/awards vest in a graded manner over an average period of one to five years. During the year the Bank has included these costs under 'Payments to and provisions for employees' as compensation cost.

4.8 Fixed assets

Fixed assets are stated at acquisition cost less accumulated depreciation, with the exception of premises, which are revalued annually and stated at revalued cost less accumulated depreciation. The surplus arising on revaluation is credited to revaluation reserve account except to the extent such increase is related to and not greater than a decrease arising on revaluation previously recorded as a charge to the profit and loss account, wherein it is credited to profit and loss account. Deficit arising on revaluation is charged to the profit and loss account except to the extent such decrease is related to an increase previously recorded as a credit to revaluation reserve which has not been subsequently reversed or utilised, wherein it is charged directly to revaluation reserve account. The revaluation of properties is done in line with RBI guidelines.

Fixed assets individually costing less than Rs.25,000 are expensed in the year of purchase. Depreciation is provided on a straight line basis over the estimated useful life of the asset. The rates of depreciation are higher than those prescribed under Schedule XIV to the Companies Act, 1956. The rates applied by the Bank on different categories of fixed assets are as follows:

Category of asset	Rate per annum
Freehold land	-
Premises	2%
Leasehold improvements	Over 5 years or remaining period of lease whichever is lower
Computers/Software	33.33%
Other fixed assets	20%

Freehold land is not depreciated as it has an indefinite economic life. Depreciation attributable to revaluation is recouped from 'Revaluation Reserve'.

The Bank assesses at each balance sheet date whether there is any indication that an asset may be impaired and provides for impairment loss, if any, in the profit and loss account.

4. Significant accounting policies *(Continued)*

4.9 Accounting for leases

Assets taken on lease are accounted for in accordance with provisions of Accounting Standard 19-Leases. Lease payments under operating leases are recognised as an expense in the statement of profit and loss account on a straight line basis over the lease term.

4.10 Taxes on income

'Taxation charge' comprises current tax provision and net change in deferred tax asset and liability during the year.

Current tax provision represents the estimated income-tax liability determined in accordance with the provisions of the Income Tax Act, 1961 and the rules framed there under.

The Bank accounts for deferred taxes in accordance with the provisions of AS 22 'Accounting for Taxes on Income'. Deferred tax is provided on timing differences between the accounting and tax treatment of income and expenditure. Deferred tax assets are recognised only if there is reasonable certainty that they will be realised in the future. However, where there are unabsorbed depreciation or carry forward losses, deferred tax assets are recognised only if it is virtually certain that these assets will be realised. Deferred tax assets are reviewed for appropriateness of their carrying value at each balance sheet date. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets and liabilities are measured using the tax rates that have been enacted or substantively enacted by the balance sheet date.

4.11 Provision for reward points on credit cards

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

4.12 Provisions contingent liabilities and contingent assets

The Bank creates a provision when there is a present obligation as a result of a past event that probably requires an outflow of resources and a reliable estimate can be made of the amount of the obligation. In cases where available information indicates that the loss on the contingency is reasonably possible but the amount of loss cannot be reliably estimated, a disclosure to this effect is made in the financial statements. When there is a possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made.

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

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

5. Notes to accounts

5.1 Capitalisation of profit

In accordance with Head Office approval and in line with the RBI requirements in this regard, the Bank had appropriated Rs. 3,791 million (previous year: Rs. 7,798 million) of profits after tax made in the current financial year to Remittable Surplus retained in India for Capital to Risk-weighted Assets Ratio (CRAR) requirements.

5.2 Fixed assets

During the year, the Bank revalued its properties in accordance with the applicable RBI guidelines. For property valued above Rs. 500 million the valuation was obtained from two independent valuers. The Bank revalued its owned freehold premises upwards by Rs. 457 million (previous year: Rs. 264 million) based on an independent professional valuation.

Certain premises valued at Rs. 6,301 million (previous year: Rs. 6,260 million) acquired under a Scheme of Arrangement are held in the name of HSBC Agency (India) Private Limited, a wholly owned subsidiary, for the benefit of the Bank. Accordingly, these premises have been treated as assets of the Bank.

The profit on sale of properties amounting to Rs. 236 million (previous year nil) and the balance in the revaluation reserve amounting to Rs. 429 million (previous year nil) with respect to these properties are transferred to the Capital Reserves-Surplus on sale of immovable properties.

5. Notes to accounts *(Continued)*

5.3 Other assets

The Bank holds a valid Banker's Receipt for 110,760 Canstock units (previous year 110,760 units) of face value Rs. 100 each which were not physically delivered by the counterparty pending settlement of a dispute. In February 1996, the Bank filed a suit against the counterparty to recover the amount covered by the said Banker's receipt with interest.

In terms of the interim order of the Honourable High Court of Mumbai, the counter party deposited on 7 August 1998 an amount of Rs. 20 million with the Honourable High Court, who in turn deposited the amount in a fixed deposit with a nationalised bank, pending final decision of the Court.

With respect to the above, the Bank deposited Rs. 555 million with the Honourable Supreme Court in FY 2004-05. This amount was charged to the profit and loss account in the aforesaid year.

5.4 Taxation

Tax liabilities in respect of Mercantile Bank Limited taken over by the Bank relating to the assessment years 1974-75 to 1983-84 and those in respect of the Bank for the assessment years 1984-85 to 1991-92 and 1996-97 are pending final outcome of the tax assessments/appeals filed by the Bank/Tax Authorities. In respect of assessment years 1992-93 to 2008-2009 and TDS assessment year 2005-2006 to 2011-12 tax matters are in appeal. The contingent liability on this account is approximately Rs. 2,823 million (previous year: Rs. 2,406 million).

Similarly, in respect of the Indian operations of the HSBC Bank Middle East, which were taken over by the Bank, the tax matters for assessment years 1990-91 to 2000-2001 are in appeal. The contingent liability on this account is approximately Rs. 157 million (previous year: Rs. 157 million). Management considers that adequate provision has been made for tax liabilities relating to the above assessment years.

5.5 Specific reserve

This reserve is created and maintained in accordance with the provisions of Section 36(1)(viii) of the Income-tax Act, 1961 and is tax deductible subject to limits prescribed therein. Any amount subsequently withdrawn there from, if at all, is liable to income tax in the year in which withdrawn.

5.6 Statutory disclosures

a. Capital adequacy ratio

The capital adequacy ratio of the Bank, calculated under the RBI guidelines is set out below:

		(Rs. '000)
	As at 31 March 2012 (Basel II)	As at 31 March 2011 (Basel II)
Tier 1 capital	**114,360,266**	104,105,669
Tier 2 capital	**9,345,641**	8,352,763
Total capital	**123,705,907**	112,458,432
Total risk weighted assets & contingents	**771,061,350**	623,725,759
Capital ratios		
Tier 1 capital	**14.83%**	16.69%
Tier 2 capital	**1.21%**	1.34%
Total capital	**16.04%**	18.03%
Amount of subordinated debt raised as Tier II capital (*see note 5.6 –ac*)	-	-

Capital adequacy for the current year has been calculated based on the Guidelines on the implementation of the 'New Capital Adequacy Framework' (Basel II), issued vide circular DBOD.No.BP.BC.11/21.06.001/2011-12 dated 1 July 2011.

5. Notes to accounts *(Continued)*

5.6 Statutory disclosures (Continued)

b. Business ratios/information

The details relating to business ratios are given below:

	For the year ended 31 March 2012	For the year ended 31 March 2011
Interest income as percentage to working funds[1]	**6.16%**	5.46%
Non-interest income as percentage to working funds[1]	**2.19%**	1.88%
Operating profits as percentage to working funds[1]	**3.48%**	3.08%
Return on assets[2]	**1.98%**	1.68%
Business (deposits plus advances) per employee (Rs. '000)	**165,790**	122,170
Net profit per employee (Rs. '000)	**3,469**	2,320

[1] Working funds to be reckoned as average of total assets (excluding accumulated losses, if any) as reported to Reserve Bank of India in Form X under Section 27 of the Banking Regulation Act, 1949, during the 12 months of the financial year.

[2] Return on Assets would be with reference to average working funds (ie total of assets excluding accumulated losses, if any).

c. Provisions and contingencies

		(Rs. '000)
	For the year ended 31 March 2012	For the year ended 31 March 2011
(Release) of provision for depreciation on investment	**(1,621,331)**	(686,944)
Provision towards NPA (including write-offs net of write backs)	**1,152,043**	2,261,985
Provision towards standard assets	-	-
Provision towards country risk	**64,718**	11,045
Provision towards current tax expense	**14,720,000**	11,080,500
Provision towards deferred tax charge	**854,662**	1,051,284
Other provisions and contingencies (refer note 5.12): Provision towards income tax relating to prior years under appeal	**-**	132,000
Provision towards bonus points	**127,610**	171,152
Provision towards off balance sheet exposures	**108,314**	30,554
(Release)/provision towards claims under litigation	**(443)**	7,840
Total	**15,405,573**	14,059,416

5. Notes to accounts *(Continued)*

5.6 Statutory disclosures (Continued)

d. Investments

(Rs. '000)

	As at 31 March 2012	As at 31 March 2011
1. Value of investments		
i. Gross value of investments	**406,756,574**	377,930,263
a. In India	**406,756,574**	377,930,263
b. Outside India	**-**	-
ii. Provision for depreciation	**(3,518,087)**	(5,139,418)
a. In India	**(3,518,087)**	(5,139,418)
b. Outside India	-	-
iii. Net value of investments	**403,238,487**	372,790,845
a. In India	**403,238,487**	372,790,845
b. Outside India	-	-
2. Movement of provisions held towards depreciation on investments		
i. Opening balance	**5,139,418**	5,826,362
ii. Add: Provision made during the year		-
iii. Less: Write back of excess provision during the year	**(1,621,331)**	(686,944)
iv. Closing balance	**3,518,087**	5,139,418

The outstanding commitments relating to securities purchase and sale contracts as at 31 March 2012 are Rs. 3,953,229 (previous year: Rs. 51,477) and Rs. 12,400,152 (previous year: Rs. 1,801,287) respectively.

e. Issuer wise composition of non-SLR investments

(Rs. '000)

As at 31 March 2012						
No.	**Issuer**	**Amount**	**Extent of Private Placement ***	**Extent of 'Below Investment Grade' Securities**	**Extent of 'Unrated' Securities**	**Extent of 'Unlisted' Securities**
(1)	**(2)**	**(3)**	**(4) #**	**(5) #**	**(6) #**	**(7) #**
i	Public sector undertakings	**14,414,956**	**3,356,107**	**-**	**1,000**	**1,000**
ii	Financial institutions	**21,284,660**	**9,094,257**	**-**	**-**	**-**
iii	Banks	**147,560,391**	**94,656,640**	**-**	**-**	**-**
iv	Private corporate	**7,624,859**	**7,524,858**	**-**	**120,103**	**120,103**
v	Subsidiaries/Joint ventures	**500**	**500**	**-**	**500**	**500**
vi	Others	**-**	**-**	**-**	**-**	**-**
vii	Provision held towards depreciation	**(122,787)**	**-**	**-**	**-**	**-**
	Total	**190,762,579**	**114,632,362**	**-**	**121,603**	**121,603**

5. Notes to accounts *(Continued)*

5.6 Statutory disclosures (Continued)

e. Issuer wise composition of non-SLR investments (Continued)

(Rs. '000)

As at 31 March 2011						
No.	**Issuer**	**Amount**	**Extent of Private Placement ***	**Extent of 'Below Investment Grade' Securities**	**Extent of 'Unrated' Securities**	**Extent of 'Unlisted' Securities**
(1)	**(2)**	**(3)**	**(4) #**	**(5) #**	**(6) #**	**(7) #**
i	Public sector undertakings	**10,324,288**	**451,000**	-	**1,000**	**1,000**
ii	Financial Institutions	**23,208,006**	**11,079,697**	-	-	-
iii	Banks	**124,494,273**	**71,232,897**	-	-	-
iv	Private corporate	**8,316,046**	**8,316,046**	-	**120,103**	**120,103**
v	Subsidiaries/Joint ventures	**500**	**500**	-	**500**	**500**
vi	Others	-	-	-	-	-
vii	Provision held towards depreciation	**(143,621)**	-	-	-	-
	Total	**166,199,492**	**91,080,140**	-	**121,603**	**121,603**

***** The classification is based on the actual issue and not on the basis of secondary market purchases.

Amounts reported under columns (4), (5), (6) and (7) above are not mutually exclusive.

f. Non-performing non-SLR investments

The non-performing investments as at 31 March 2012 are Rs. 4 (previous year: Rs. 4). This represents 3 equity share investments and 1 preference share investments which have each being written down to Rs. 1.

g. Repo transactions (in face value terms)

(Rs. '000)

	Minimum outstanding during the Year 2011-12	**Maximum outstanding during the Year 2011-12**	**Daily Average outstanding during the Year 2011-12**	**Outstanding as at 31 March 2012**
Securities sold under repos				
i. Government securities	**1,000,000**	**51,450,000**	**8,628,156**	**5,1450,000**
ii. Corporate debt securities	-	-	-	-
Securities purchased under reverse repos				
i. Government securities	**100,000**	**9,0870,000**	**27,194,536**	**14,700,000**
ii. Corporate debt securities	-	-	-	-

5. Notes to accounts *(Continued)*

5.6 Statutory disclosures (Continued)

g. Repo transactions (in face value terms) (Continued)

(Rs. '000)

	Minimum outstanding during the Year 2010-11	Maximum outstanding during the Year 2010-11	Daily Average outstanding during the Year 2010-11	Outstanding as at 31 March 2011
Securities sold under repos				
i. Government securities	1,050,000	42,390,000	4,803,192	32,550,000
ii. Corporate debt securities	-	-	-	-
Securities purchased under reverse repos				
i. Government securities	500,000	123,517,200	22,492,015	-
ii. Corporate debt securities	-	-	-	-

Notes:

1. The above figures also include LAF/Repo transactions undertaken with the RBI.
2. Minimum outstanding during the year excludes days with nil outstanding.

h. Movements in NPAs

(Rs. '000)

	For the Year March 2012			For the year March 2011		
	Gross NPA	**Provision**	**Net NPA**	Gross NPA	Provision	Net NPA
a. Opening balance	**9,955,304**	**7,467,872**	**2,487,432**	16,832,926	11,401,585	5,431,341
b. Additions during the period	**4,722,733**	**2,406,531**	**2,316,229**	2,775,803	2,806,743	(30,940)
c. Reductions during the period	**(7,476,933)**	**(4,876,734)**	**(2,600,227)**	(9,653,425)	(6,740,456)	(2,912,969)
d. Closing balance	**7,201,104**	**4,997,669**	**2,203,434**	9,955,304	7,467,872	2,487,432

Provision includes specific provisions on non-homogeneous loans and provisions created on portfolio basis using the historical loss and/or net flow method for homogeneous loans relating to retail business.

i. Non-performing advances (NPA)

The percentage of net NPA to net advances is 0.62% as at 31 March 2012 (previous year: 0.91%).

j. Provision coverage ratio

The provision coverage ratio computed in accordance with RBI circular no DBOD.No.BP.BC. 64/21.04.048/2009-10 dated 1 December 2009 is 69.40% as at 31 March 2012 (previous year: 75.01%).

5. Notes to accounts *(Continued)*

5.6 Statutory disclosures (Continued)

k. Movement of gross NPAs

		(Rs. '000)
	For the year ended 31 March 2012	For the year ended 31 March 2011
Gross NPAs as on 1 April	**9,955,304**	16,832,926
Additions (fresh NPAs during the year)	**4,722,733**	2,775,803
Sub-total (A)	**14,678,037**	19,608,729
Less:		
i. Upgradations	**(796,209)**	(1,714,817)
ii. Recoveries (excluding recoveries made from upgraded accounts)	**(3,011,071)**	(2,678,918)
iii. Write-offs	**(3,669,653)**	(5,259,690)
Sub-total (B)	**(7,476,933)**	(9,653,425)
Gross NPAs as on 31st March (A-B)	**7,201,104**	9,955,304

As per RBI circular no DBOD.No.BP.BC. 46/21.04.048/2009-10 dated 24 September 2009, interest in suspense has been deducted from gross NPAs for the year ended 31 March 2012.

l. Floating provision

The Bank does not have a policy of making floating provisions.

m. Lending to sensitive sectors

Exposure to real estate

		(Rs. '000)
Category	**As at 31 March 2012**	As at 31 March 2011
A. Direct exposure	**91,663,518**	82,580,737
i. Residential mortgages –		
Lendings fully secured by mortgages on residential property that is or will be occupied by the borrower or that is rented *	**62,143,067**	55,088,206
– Of which individual housing loans eligible for inclusion in priority sector advances	**5,738,247**	8,874,846
ii. Commercial real estate	**29,520,451**	27,492,531
iii. Investments in Mortgage Backed Securities (MBS) and other securitised exposures –		
a. Residential	-	-
b. Commercial real estate	-	-

5. Notes to accounts *(Continued)*

5.6 Statutory disclosures (Continued)

m. Lending to sensitive sectors (Continued)

(Rs. '000)

Category	As at 31 March 2012	As at 31 March 2011
B. Indirect exposure	**14,310,615**	20,785,811
Fund based and non-funded based exposures on National Housing Bank (NHB) and housing finance companies	**14,310,615**	20,785,811
Others	-	-
Total exposure to real estate sector (A+B)	**105,974,133**	**103,366,548**

* Includes undrawn limits of Rs.12,132 million (previous year: Rs. 12,536 million) pertaining to mortgages on residential property.

Exposure to capital market

(Rs. '000)

	As at 31 March 2012	As at 31 March 2011
i. direct investment in equity shares, convertible bonds, convertible debentures and units of equity-oriented mutual funds the corpus of which is not exclusively invested in corporate debt;	**1,100**	1,200
ii. advances against shares/bonds/debentures or other securities or on clean basis to individuals for investment in shares (including IPOs/ESOPs), convertible bonds, convertible debentures, and units of equity-oriented mutual funds;	**4,044**	99,996
iii. advances for any other purposes where shares or convertible bonds or convertible debentures or units of equity oriented mutual funds are taken as primary security;	**574,732**	589,513
iv. advances for any other purposes to the extent secured by the collateral security of shares or convertible bonds or convertible debentures or units of equity oriented mutual funds ie where the primary security other than shares/convertible bonds/convertible debentures/units of equity oriented mutual funds do not fully cover the advances;	-	-
v. secured and unsecured advances to stockbrokers and guarantees issued on behalf of stockbrokers and market makers;	**7,508,957**	10,245,499
vi. loans sanctioned to corporates against the security of shares/bonds/debentures or other securities or on clean basis for meeting promoter's contribution to the equity of new companies in anticipation of raising resources;	-	-
vii. bridge loans to companies against expected equity flows/issues;	**700,000**	-

5. Notes to accounts *(Continued)*

5.6 Statutory disclosures (Continued)

m. Lending to sensitive sectors (Continued)

(Rs. '000)

	As at 31 March 2012	As at 31 March 2011
viii. underwriting commitments taken up by the banks in respect of primary issue of shares or convertible bonds or convertible debentures or units of equity oriented mutual funds;	**-**	-
ix. financing to stockbrokers for margin trading;	**-**	-
x. all exposures to Venture Capital Funds (both registered and unregistered)	**-**	-
xi. Others	**2,141,671**	921,346
Total exposure to capital market (i to xi)	**10,930,504**	11,857,554

n. Restructured accounts

A. Particulars of accounts restructured

For the year ended 31 March 2012

(Rs. '000)

		CDR Mechanism	**SME Debt Restructuring**	**Others ***
Standard advances restructured	No. of Borrowers	**-**	**-**	**12**
	Amount outstanding	**-**	**-**	**1,862**
	Sacrifice (diminution in the fair value)	**-**	**-**	**520**
Sub standard advances restructured	No. of Borrowers	**3**	**-**	**-**
	Amount outstanding	**492,266**	**-**	**-**
	Sacrifice (diminution in the fair value)	**-**	**-**	**-**
Doubtful advances restructured	No. of Borrowers	**-**	**-**	**-**
	Amount outstanding	**-**	**-**	**-**
	Sacrifice (diminution in the fair value)	**-**	**-**	**-**
TOTAL	No. of Borrowers	**3**	**-**	**12**
	Amount outstanding	**492,266**	**-**	**1,862**
	Sacrifice (diminution in the fair value)	**-**	**-**	**520**

* Others include 10 retail loan accounts with total amount outstanding Rs. 1.86 million and 2 corporate loan accounts with nil balance as at 31 March 2012.

5. Notes to accounts *(Continued)*

5.6 Statutory disclosures (Continued)

n. Restructured accounts (Continued)

For the year ended 31 March 2011

(Rs. '000)

		CDR Mechanism	SME Debt Restructuring	Others *
Standard advances restructured	**No. of Borrowers**	-	1	15,865
	Amount outstanding	-	221	449,089
	Sacrifice (diminution in the fair value)	-	-	16,953
Sub standard advances restructured	**No. of Borrowers**	-	1	163
	Amount outstanding	-	764	138,148
	Sacrifice (diminution in the fair value)	-	-	420
Doubtful advances restructured	**No. of Borrowers**	-	-	148
	Amount outstanding	-	-	4,912
	Sacrifice (diminution in the fair value)	-	-	239
TOTAL	**No. of Borrowers**	-	2	16,176
	Amount outstanding	-	985	592,149
	Sacrifice (diminution in the fair value)	-	-	17,612

* Others include 16,175 retail loan accounts with total amount outstanding Rs. 463 million and 1 corporate loan account with total amount outstanding Rs. 130 million as at 31 March 2011.

B. One customer's (previous year: no customers) application is under process and the amount proposed to be restructured is Rs. 187.5 million (previous year: nil).

o. Country risk

Provision for country risk exposure in line with RBI guidelines is as follows:

(Rs. '000)

Classification	**Exposure as at 31 March 2012***	**Provision held as at 31 March 2012**	Exposure as at 31 March 2011*	Provision held as at 31 March 2011
Insignificant	**265,125,377**	**84,741**	218,487,903	72,255
Low	**57,699,345**	**85,625**	32,848,962	33,393
Moderate	**5,508,017**	-	1,420,394	-
High	**265,382**	-	237,953	-
Very high	**182,701**	-	289,537	-
Restricted	**91,725**	-	4,519	-
Off-credit	**4,400**	-	-	-
Total	**328,876,947**	**170,366**	253,289,268	105,648

The above provision has been classified as 'Standard Asset provision' in Schedule 5.

* Exposures are computed on Gross basis

5. Notes to accounts *(Continued)*

5.6 Statutory disclosures (Continued)

p. Disclosure on Single Borrower Limits ('SBL')/Group Borrower Limits ('GBL')

The RBI has prescribed credit exposure limits for banks in respect of their lending to single/group borrowers. The exposure limits prescribed are 15% of the capital funds of banks in case of single borrowers (SBL) and 40% of the capital funds of banks in case of group borrowers (GBL). In case of infrastructure projects, an additional exposure of up to 5%/10% of capital funds is allowed for SBL/GBL respectively. SBL can also be increased by a further 5% of capital funds with the permission of the Executive Committee (EXCO) and provided the borrower consents to the Bank making appropriate disclosures in the Bank's statutory accounts.

SBL has been raised to 25% of capital funds in respect of Oil Companies who have been issued Oil Bonds (which do not have SLR status) by the Government of India.

During the year following customers were sanctioned an additional 5% limit in accordance with aforesaid RBI guidelines:- Aircel Limited, Hindalco Limited, Larsen & Toubro Limited, Reliance Industries Limited, Siemens Limited, Tata Steel Limited, Tata Chemicals Limited, Tata Motors Limited and Wipro Limited. Further the Bank's exposures to single borrowers were within the limit except in case of Reliance Industries Limited and Wipro Limited.

q. Concentration of deposits

		(Rs. '000)
	As at 31 March 2012	**As at 31 March 2011**
Total Deposits of twenty largest depositors	**110,321,290**	92,941,738
Percentage of Deposits of twenty largest depositors to Total Deposits of the bank	**17.96%**	17.18%

r. Concentration of Advances

		(Rs. '000)
	As at 31 March 2012	**As at 31 March 2011**
Total Advances of twenty largest borrowers	**288,273,493**	224,599,691
Percentage of Advances of twenty largest borrowers to Total Advances of the bank	**21.89%**	20.57%

s. Concentration of Exposures

		(Rs. '000)
	As at 31 March 2012	**As at 31 March 2011**
Total Exposure of twenty largest borrowers/customers	**293,919,767**	233,640,250
Percentage of Exposures of twenty largest borrowers/ customers to Total Exposure of the bank on borrowers/ customers	**21.64%**	20.61%

t. Concentration of NPAs

Total exposure to top four NPA accounts is Rs. 1,782 million (previous year Rs. 3,145 million). The exposure is computed on a gross basis.

5. Notes to accounts *(Continued)*

5.6 Statutory disclosures (Continued)

u. Sector-wise NPAs

(Rs. '000)

Sector	Percentage of Gross NPAs to Gross Advances in that sector	
	As at 31 March 2012	As at 31 March 2011
Agriculture & allied activities	**0%**	0%
Industry (Micro & small, Medium and Large)	**0.99%**	2.88%
Services	**3.10%**	3.06%
Personal Loans*	**3.83%**	5.74%

Note: Classification into sectors as above has been done based on the Bank's internal norms.

*Comprises auto loans, consumer loans, credit cards, home loans, personal loans, business loans except where otherwise classified

v. Securitisation of standard assets

(Rs. '000)

	For year ended 31 March 2012	For year ended 31 March 2011
Total number of loan assets securitised	-	-
Total book value of loan assets securitised (Rs. '000)	-	-
Sale consideration received for the securitised assets (Rs. '000)	-	-
Gain on sale on account of securitisation (Rs. '000)	-	-
Gain on securitisation recognised in Income Statement (Rs. '000)	**3,743**	28,478
The unamortised gain as at 31 March (Rs. '000)	**3,981**	7,724
Form and quantum (outstanding value) of services provided by way of – Credit Enhancement as at 31 March (Rs. '000)	**40,025**	40,025

Note: The gain on securitisation represents the difference between the sale consideration and the book value, and for one deal the present value of the excess interest strip retained by the Bank.

w. Financial assets sold to Securitisation Companies (SC)/Reconstruction Companies (RC) for Asset Reconstruction

(Rs. '000)

	For year ended 31 March 2012	For year ended 31 March 2011
Number of accounts	**2**	51
Aggregate value (net of provisions) of accounts sold to SC/RC (Rs. '000)	**1,107,990**	202,791
Aggregate consideration (Rs. '000)	**530,000**	431,984
Additional consideration realised in respect of accounts transferred in earlier years (Rs. '000)	-	-
Aggregate (loss)*/gain over net book value (Rs. '000)	**(577,990)**	229,193

*This loss has been negated by way of recovery by invoking a bank guarantee of Rs. 790 Million. Hence the same has resulted in to profit on sale amounting to Rs. 212 Million.

5. Notes to accounts *(Continued)*

5.6 Statutory disclosures (Continued)

x. Purchase/Sale of NPAs

There has been no purchase of NPAs during the year ended 31 March 2012 (previous year: nil).

Details of NPAs sold during the year ended 31 March 2012 are provided in Note 5.6 (w).

y. Off Balance Sheet SPVs

The Bank has not sponsored any off-balance sheet SPVs.

z. Disclosure on interest rate swaps and forward rate agreements ('FRA')

(Rs. '000)

No.	Items	As at 31 March 2012	As at 31 March 2011
i	The notional principal of swap agreements	**4,636,516,886**	6,149,098,932
ii	Losses which would be incurred if counterparties failed to fulfil their obligations under the agreements	**43,807,579**	62,093,342
iii	Collateral required by the bank upon entering into swaps	-	-
iv	Concentration of credit risk arising from the swaps		
	- maximum single industry exposure with banks (previous year with banks)	**85%**	89%
v	The fair value of the swap book	**(4,944,975)**	(5,907,050)

Note: The above includes MTMs on hedging swaps.

The nature and terms of interest rate swaps outstanding are set out below:

		As at 31 March 2012		As at 31 March 2011	
Nature	Terms	No.	Notional principal (Rs. '000)	No.	Notional principal (Rs. '000)
Trading swaps	Receive floating pay floating	**41**	**86,104,384**	33	76,223,239
Trading swaps	Receive floating pay fixed	**3,575**	**2,333,074,801**	5,301	3,117,664,405
Trading swaps	Receive fixed pay floating	**3,497**	**2,191,837,701**	5,211	2,916,961,288
Hedging swaps	Receive floating pay fixed	**59**	**25,500,000**	64	38,250,000

The nature and terms of forward rate agreements outstanding are set out below:

		As at 31 March 2012		As at 31 March 2011	
Nature	Terms	No.	Notional principal (Rs. '000)	No.	Notional principal (Rs. '000)
Trading swaps	Receive floating pay fixed	-	-	-	-
Trading swaps	Receive fixed pay floating	-	-	-	-

5. Notes to accounts *(Continued)*

5.6 Statutory disclosures (Continued)

aa. Risk exposure in derivatives

Qualitative disclosure

Limit utilisations are monitored against approved limits provided by the Chief Executive Officer (CEO) to the dealers. The above is monitored daily by the Bank's treasury middle office through system reports and advised to senior management on an ongoing basis.

Market Risk Limits are set using a combination of risk measurement techniques, including position limits, sensitivity limits (Present Value of a Basis Point), as well as Value at Risk ('VAR') limits at a portfolio level. Similarly, option risks are controlled through full revaluation limits in conjunction with limits on the underlying variables that determine each option's value.

Derivative instruments are subject to both market risk and credit risk. Market risk is the risk that movements in foreign exchange rates, interest rates and credit spreads result in profits or losses to the Bank. Credit risk for a derivative is the replacement cost of any contract with a positive mark-to-market gain and an estimate of the potential future change in value, reflecting the volatilities affecting the contract. Credit risk on contracts having a negative mark-to-market value is restricted to the potential future change in value.

The Bank enters into derivative deals within limits set up for each counterparty. These limits are set based on the Bank's credit risk assessment for the counterparty which inter alia considers the ability of the counterparty to honour its obligations in the event of crystallisation of the exposure. Appropriate facility covenants are stipulated where required, defining trigger events that give the Bank the right to call for collateral or terminate a transaction to contain the risk.

The accounting policy for derivative financial instruments is set out in schedule 18 note 4.4. Further, the Bank conforms to the RBI guidelines on provisioning.

Outstanding trading derivative contracts are valued at market rates. Market values for derivatives are determined with reference to independently sourced rates, using valuation models, which typically utilise discounted cash flow techniques to derive the market value.

Hedging policy

The Bank bases its hedging decisions on an Asset Liability Committee ('ALCO') approved hedging policy and the hedging activity is executed by a Balance Sheet Management team which is also responsible for the management of the banking book liquidity, funding and interest rate risks.

The Bank typically uses micro fair value hedges to de-risk fixed rate banking book risks as there are not many floating benchmark based risks. The bank allows only external derivatives for hedging. It also allows partial term hedging of underlyings. Each hedge is documented on day 1.

The Bank has strict controls on the infrastructure required to support hedge accounting. The Bank has an instruction manual on hedging activities among other things and compliance is monitored on an ongoing basis.

The effectiveness tests are done at inception of a hedge as well as on an ongoing basis. The Bank internally considers a prospective 90%-110% effectiveness result to be highly effective. All prospective tests have to fall in this range else the Bank considers potential re-designation of the hedge. On a retrospective basis the Bank applies the 80%-125% criteria for recognising effectiveness. Hedge ineffectiveness is automatically calculated by the Bank's system.

5. Notes to accounts *(Continued)*

5.6 Statutory disclosures (Continued)

aa. Risk exposure in derivatives (Continued)

Quantitative disclosure

(Rs. '000)

		As at 31 March 2012		As at 31 March 2011	
Sr. No.	**Particular**	**Currency derivatives**	**Interest rate derivatives**	Currency derivatives	Interest rate derivatives
1	Derivatives (notional principal amount)				
	a. for hedging	**-**	**25,500,000**	-	38,250,000
	b. for trading	**5,082,205,440**	**4,638,698,918**	3,423,558,301	6,141,721,226
2	Marked-to-market position				
	a. Asset (+)	**132,589,413**	**44,436,767**	81,916,441	62,451,519
	b. Liability (-)	**126,419,287**	**49,282,285**	71,690,845	68,192,207
3	Credit exposure #	**281,453,651**	**86,408,071**	201,042,801	116,982,722
4	Likely impact of one percentage point change in interest rate (100*PV01) ##				
	a. on hedging derivatives	**-**	**418,314**	-	364,636
	b. on trading derivatives	**5,195,312**	**4,649,702**	3,868,572	3,738,262

(Rs. '000)

		As at 31 March 2012		As at 31 March 2011	
Sr. No.	**Particular**	**Currency derivatives**	**Interest rate derivatives**	Currency derivatives	Interest rate derivatives
5	Maximum and minimum of 100*PV01 observed during the year				
	a. on hedging				
	Maximum	**-**	**1,069,623**	-	439,543
	Minimum	**-**	**246,412**	-	265,043
	b. on trading				
	Maximum	**5,477,777**	**4,984,491**	4,295,345	4,086,861
	Minimum	**3,337,805**	**3,634,246**	3,243,638	2,832,437

#The credit exposure is computed based on the current exposure method specified in the RBI Basel II norms

Computed based on month end outstanding.

Currency derivatives include Forwards, Currency Options and Currency Swaps.

Interest rate derivatives include Forward Rate Agreements, Interest Rate Options and Interest Rate Swaps.

Note: The above includes MTMs on hedging swaps, which are reported in Schedule 8 Investments

5. Notes to accounts *(Continued)*

5.6 Statutory disclosures (Continued)

ab. Exchange traded interest rate derivatives

(Rs. '000)

No.	Particulars	31 March 2012	31 March 2011
i	Notional principal amount of exchange traded interest rate derivatives undertaken during the year (instrument-wise)* a. 10 year notional coupon bearing sovereign bond – coupon rate 7%	**-**	103,600*
	b. 91 day Treasury bills	**5,175,800**	-
	c. US dollar currency futures	**1**	-
ii	Notional principal amount of exchange traded interest rate derivatives outstanding	**-**	-
iii	Notional principal amount of exchange traded interest rate derivatives outstanding and not 'highly effective'	**-**	-
iv	Mark-to-market value of exchange traded interest rate derivatives outstanding and not 'highly effective'	**-**	-

*Includes both purchase and sale.

ac. Subordinated debt

There was no subordinated debt that was outstanding at any point of time during the year ended 31 March 2012 and 31 March 2011.

ad. Penalties imposed by RBI

RBI imposed a penalty of Rs. 500 thousand vide order dated 26 April 2011 under section 47 A (1) (b) read with section 46(4) of the Banking Regulation Act, 1949. The Bank paid the penalty to RBI on 4 May 2011. Further, in the previous year, RBI imposed a penalty of Rs. 10 thousand vide order dated 1 July 2010 under section 11(3) of the Foreign Exchange Management Act, 1999. The Bank paid the penalty to RBI on 14 July 2010.

ae. Operating expenses – other expenditure

'Other expenditure' includes the following:

(Rs. '000)

	For the year ended 31 March 2012	For the year ended 31 March 2011
Head Office costs allocated	**1,842,955**	1,377,973
Services contracted out	**4,471,193**	2,314,199

5. Notes to accounts *(Continued)*

5.6 Statutory disclosures (Continued)

af. Micro, small and medium enterprises

Under the Micro, Small and Medium Enterprises Development Act, 2006 (MSMED), which came into force from 2 October 2006, the following disclosure is made based on the information and records available with the management in respect of the micro, small and medium enterprises who have registered with the competent authorities:

		(Rs. '000)
	31 March 2012	31 March 2011
Principal amount remaining unpaid to any supplier as at the year end	**8,075**	23
Interest due thereon	**-**	-
Amount of interest paid by the company in terms of section 16 of the MSMED, along with the amount of the payment made to the supplier beyond the appointed day during the accounting year	**-**	-
Amount of interest due and payable for the period of delay in making payment (which have been paid but beyond the appointed day during the year) but without adding the interest specified under the MSMED act	**-**	-
Amount of interest accrued and remaining unpaid at the end of the accounting year	**-**	-
Amount of further interest remaining due and payable even in the succeeding years, until such date when the interest dues as above are actually paid to the small enterprises, under Section 23 of the MSMED act	**-**	-

ag. Bancassurance income

During the year, the Bank earned an amount of Rs. 2,758 million towards bancassurance income (previous year: Rs. 3,239 million)

		(Rs. '000)
Nature of Income	**For the year ended 31 March 2012**	For the year ended 31 March 2011
For selling life insurance products	**495,460**	895,578
For selling non-life insurance products	**38,386**	54,247
For selling mutual fund products	**2,224,168**	2,289,290
Others	**-**	11
Total	**2,758,014**	3,239,126

5. Notes to accounts *(Continued)*

5.6 Statutory disclosures (Continued)

ah. PD Disclosure

The Bank merged the Primary Dealership business with itself effective from 28 August 2006. The Bank has maintained the minimum stipulated balance of Rs. 100 crores of Government Securities required to be maintained in the Bank's PD book on an ongoing basis. Further, the Bank PD has met the bidding commitments as per the required norms issued by RBI. The details of the bidding commitment and bids tendered and accepted are set out below:

			(Rs. crores)
	For the year ended 31 March 2012		
	Dated government securities	**State government securities**	**Treasury bills**
Annual bidding commitment	**12,791**	**Not applicable**	**30,500**
Bids tendered	**32,922**	**1,310**	**113,931**
Bids accepted	**22,903**	**667**	**33,127**
Success ratio	**Not applicable**	**Not applicable**	**108.61%**
Success ratio required as per RBI guidelines	**Not applicable**	**Not applicable**	**40.00%**

			(Rs. crores)
	For the year ended 31 March 2011		
	Dated government securities	State government securities	Treasury bills
Annual bidding commitment	11,725	Not applicable	15,800
Bids tendered	21,270	25	52,787
Bids accepted	8,903	-	15,655
Success ratio	Not applicable	Not applicable	99.08%
Success ratio required as per RBI guidelines	Not applicable	Not applicable	40.00%

ai. Provision towards standard assets

		(Rs. '000)
	31 March 2012	31 March 2011
Provision towards standard assets	**4,407,815**	4,407,815
Provision towards country risk (Refer note 5.6 (o))	**170,366**	105,648
Accumulated surplus arising on sale of NPA	**692,776**	480,646
Total	**5,270,957**	4,994,109

aj. Maturity pattern

Management has made certain estimates and assumptions in respect of behavioural maturities of non-term assets and liabilities and trading securities while compiling their maturity profile which is consistent with the Bank's reporting to the RBI which have been relied upon by the auditors.

5. Notes to accounts *(Continued)*

5.6 Statutory disclosures (Continued)

aj. Maturity pattern (Continued)

As at 31 March 2012

(Rs. '000)

	Day 1	2 to 7 Days	8 to 14 Days	15 to 28 Days	29 Days to 3 Months	Over 3 month to 6 months	Over 6 month to 12 months	Over 1 years to 3 years	Over 3 years to 5 years	Over 5 years	Total
Loans and advances	29,707,615	10,017,032	26,985,005	53,963,727	57,869,270	59,838,212	29,445,747	45,756,767	19,430,941	22,108,506	355,122,822
Investment securities	42,435,964	48,354,365	3,919,022	4,432,381	72,348,354	34,976,596	57,759,586	63,245,179	38,965,126	36,801,914	403,238,487
Deposits	35,672,501	67,812,915	42,720,787	36,952,088	79,795,495	38,598,790	80,799,989	16,457,354	215,423,294	-	614,233,213
Borrowings	1,762,267	69,604,375	23,233,087	-	7,631,250	-	2,543,750	-	-	-	104,774,729
Foreign currency assets	59,564,475	8,342,437	8,552,145	15,341,845	28,267,700	29,402,978	17,807,006	23,383,355	10,241,098	14,566,936	215,469,975
Foreign currency liabilities	3,609,861	24,686,687	36,323,749	2,550,030	39,050,817	28,624,371	40,810,912	30,230,850	35,654,130	23,375,493	264,916,900

As at 31 March 2011

(Rs. '000)

	Day 1	2 to 7 Days	8 to 14 Days	15 to 28 Days	29 Days to 3 months	Over 3 months to 6 months	Over 6 months to 12 months	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years	Total
Loans and advances	51,629,224	11,962,769	14,338,148	25,936,791	63,481,543	30,348,244	10,266,716	30,358,700	13,667,591	22,016,485	274,006,211
Investment securities	27,395,842	42,958,629	11,133,771	21,736,034	60,695,635	54,451,331	53,935,056	59,356,925	35,338,598	5,789,024	372,790,845
Deposits	23,606,836	55,807,655	33,020,782	40,019,884	54,372,828	34,476,745	76,744,307	15,690,124	207,325,706	2,248	541,067,115
Borrowings	6,162,710	31,150,000	-	-	9,703,872	3,246,516	-	-	-	-	50,263,098
Foreign currency assets	8,846,002	14,795,144	7,320,913	10,547,185	23,670,089	25,491,055	5,679,571	34,247,865	14,277,674	11,366,450	156,241,948
Foreign currency liabilities	9,241,627	4,769,726	2,923,729	3,058,199	28,142,535	25,947,022	29,742,971	19,771,984	27,941,337	7,617,905	159,157,035

ak. Overseas assets, NPAs and revenue

As the Bank is a branch of a foreign bank, this disclosure is not considered applicable.

5. Notes to accounts *(Continued)*

5.7 Employee benefits

a. Summary

(Rs. '000)

	For the year ended 31 March 2012		For the year ended 31 March 2011	
	Gratuity	**Pension**	Gratuity	Pension
Defined benefit obligation	**754,515**	**1,515,409**	767,047	1,479,128
Fair value of plan assets	**780,564**	**1,541,174**	703,576	1,512,918
(Surplus)/Deficit	**(26,049)**	**(25,765)**	63,471	(33,790)
Effect of limit on plan surplus	-	-	-	-
Unrecognised Past service Costs	**(24,957)**	-	(60,307)	-
Net (surplus)/deficit	**(51,006)**	**(25,765)**	3,164	(33,790)

The pension liability includes a liability in respect of the unfunded plan of Rs. 345 million (previous year: Rs. 365 million).

The majority of the plan assets are invested in government securities, corporate bonds and special deposit schemes.

b. Changes in present value of defined benefit obligations

(Rs. '000)

	For the year ended 31 March 2012		For the year ended 31 March 2011	
	Gratuity	**Pension**	Gratuity	Pension
Opening balance	**767,047**	**1,479,128**	702,062	1,345,757
Current service cost	**100,861**	**44,691**	105,741	37,687
Interest cost	**58,331**	**117,670**	53,417	106,197
Past service cost	**-**	**-**	-	-
Benefits paid	**(111,366)**	**(113,622)**	(90,054)	(79,052)
Actuarial(gain)/loss recognised during the year	**(60,358)**	**(12,458)**	(4,119)	68,539
Closing balance	**754,515**	**1,515,409**	767,047	1,479,128

5. Notes to accounts *(Continued)*

5.7 Employee benefits (Continued)

c. Changes in the fair value of plan assets

(Rs. '000)

	For the year ended 31 March 2012		For the year ended 31 March 2011	
	Gratuity	**Pension**	Gratuity	Pension
Opening balance	**703,576**	**1,512,918**	553,242	1,440,081
Expected return on plan assets	**57,718**	**117,957**	48,421	113,668
Contributions by the bank	**147,164**	**-**	194,102	-
Benefits paid	**(111,366)**	**(76,893)**	(90,053)	(38,471)
Actuarial gain/(loss) recognised during the year	**(16,528)**	**(12,808)**	(2,136)	(2,360)
Closing balance	**780,564**	**1,541,174**	703,576	1,512,918
Actual return on plan assets	**41,190**	**105,149**	46,285	111,308

The bank expects to contribute Rs. 84, 930 ('000) to the gratuity plan assets for the annual period ending on 31 March 2013.

d. Total expense recognised in the profit and loss account in schedule 16 (I)

(Rs. '000)

	For the year ended 31 March 2012		For the year ended 31 March 2011	
	Gratuity	**Pension**	Gratuity	Pension
Current service cost	**100,861**	**44,691**	105,741	37,687
Interest cost	**58,331**	**117,670**	53,417	106,197
Past service cost	**35,350**	**-**	35,350	-
Expected return on plan assets	**(57,718)**	**(117,957)**	(48,421)	(113,668)
Effect of limit on plan surplus	-	-	-	-
Net actuarial (gain)/loss recognised during the year	**(43,830)**	**350**	(1,984)	70,899
	92,994	**44,754**	144,103	101,115

e. Key assumptions

	For the year ended 31 March 2012		For the year ended 31 March 2011	
	Gratuity	**Pension**	Gratuity	Pension
Salary escalation #	**5%-7%**	**5%-7%**	5% - 12%	5% - 12%
Discount rate	**8.7%**	**8.7%/8.9%$**	8.2%	8.2%/8.5%$
Expected rate of return on plan assets	**8%**	**8%**	8%	8%
Attrition rate	**1%-15%**	**1%-15%**	1% - 15%	1% - 15%

Salary escalation rate varies based on the category of employees, their salary terms and future period of employment. Further, the estimates of future salary increases, considered in actuarial valuation, take into consideration inflation, seniority, promotion and other relevant factors such as supply and demand in the employment market.

$ 8.9% for unfunded pension schemes.

5. Notes to accounts *(Continued)*

5.7 Employee benefits (Continued)

f. Experience adjustments

(Rs. '000)

	For the year ended 31 March				
	2012	2011	2010	2009	2008
Gratuity					
Defined benefit obligation	**754,515**	767,047	702,062	472,923	397,976
Fair value of plan assets	**780,564**	703,576	553,242	435,829	356,515
Unrecognised past service costs	**(24,957)**	(60,307)	(95,657)	-	-
Net (surplus)/deficit	**(51,006)**	3,164	53,163	37,094	41,461
Experience gain/(loss) on plan liabilities	**11,449**	18,066	65,112	-	49,382
Experience gain/(loss) on plan assets	**(16,528)**	(2,136)	(6,244)	-	7,863
Pension					
Defined benefit obligation	**1,515,409**	1,479,128	1,345,757	1,170,858	1,063,126
Fair value of plan assets	**1,541,174**	1,512,918	1,440,081	1,413,667	1,355,593
Effect of limit on plan surplus	**-**	-	-	258,653	123,509
Net (surplus)/deficit	**(25,765)**	(33,790)	(94,324)	15,844	(168,958)
Experience gain/(loss) on plan liabilities	**(59,572)**	(88,713)	34,685	-	41,850
Experience gain/(loss) on plan assets	**(12,808)**	(2,360)	(29,543)	-	(3,706)

g. Defined contribution plan

The Bank has recognised an amount of Rs. 300 million as an expense for the defined contribution plan towards provident fund contribution (previous year: Rs. 376 million).

5.8 Segment reporting

h. Segment description

In line with the RBI guidelines, the Bank has identified 'Treasury', 'Retail Banking', 'Corporate Banking', and 'Other Banking Business' as the primary reporting segments.

Treasury undertakes trading operations, derivatives trading and foreign exchange operations, on the proprietary account and for customers. Principal expenses of this segment comprise interest on market borrowings, personnel costs and other direct overheads and allocated expenses.

Retail Banking includes personal banking business of the Bank. Personal banking segment services retail customers and offers personal banking products. This segment included exposures, which fulfil the four criteria of orientation, product, granularity and low value of individual exposures for retail exposures as detailed in the RBI guidelines for 'Segment Reporting'. Credit card operations and home loans are also included in retail operations as they fulfil the four criteria set out in the RBI circular.

Corporate Banking caters to the Corporate and Institutional customers. This segment includes all advances to trusts, partnership firms, companies and statutory bodies, which are not included under 'Retail Banking'. These also include custody operations, payment and settlement operations and factoring advances. Small and medium enterprises are also included in corporate banking.

Other Banking Business include all other banking operations not covered under 'Treasury', 'Retail Banking' and 'Corporate Banking' segments. It also includes all other residual operations such as para banking transactions/activities, except for credit card, factoring business, custody operations and payment and settlement operations.

5. Notes to accounts *(Continued)*

5.8 Segment reporting (Continued)

h. Segment description (Continued)

Segment revenues stated below are aggregate of Schedule 13- Interest income and Schedule 14- Other income and after considering the net fund transfer pricing adjustment. Treasury gives notional interest benefit to other divisions for the funds mobilised by the latter through deposits, and similarly charges notional interest to other divisions for the funds utilised by them for lending and investment purposes. Based on tenor of assets/liabilities and market scenarios, treasury calculates notional interest rates used for this purpose. Expense of these segments comprises interest expense on deposits, infrastructure cost for the branch network, personnel costs, other direct overheads and allocated expenses. The presentation of segment revenue in year ended 31 March 2012 has been enhanced to ensure that segment revenue is consistent with the distribution of segment result with respect to the application of the net fund transfer pricing mechanism. The comparative period, the year ended 31 March 2011, has been accordingly regrouped.

(Rs. '000)

Business Segments	Treasury	Retail Banking	Corporate Banking	Other Banking Business	Total
Particulars	**For the year ended 31 March 2012**				
Segment revenue	**17,702,787**	**24,055,134**	**38,398,461**	**3,813,881**	**83,970,263**
Segment result	**16,073,680**	**3,836,372**	**17,245,797**	**138,470**	**37,294,319**
Unallocated expenses					**(1,842,955)**
Extra ordinary items					
Profit before taxes					**35,451,364**
Income taxes					**(15,574,662)**
Net profit					**19,876,702**
As at 31 March 2012					
Other information					
Segment assets	**657,805,764**	**85,668,839**	**331,300,794**	**6,391,295**	**1,081,166,692**
Unallocated assets					**11,076,086**
Total assets					**1,092,242,778**
Segment liabilities	**254,154,925**	**251,250,628**	**425,203,21**	**10,254,151**	**940,862,916**
Unallocated liabilities					**1,842,955**
Total net assets					**149,536,907**

5. Notes to accounts *(Continued)*

5.8 *Segment reporting (Continued)*

h. Segment description (Continued)

(Rs. '000)

Business Segments	Treasury	Retail Banking	Corporate Banking	Other Banking Business	Total
Particulars		For the year ended 31 March 2011			
Segment revenue	14,057,043	20,279,554	32,693,063	2,806,414	69,836,074
Segment result	12,535,169	9,263	14,969,905	1,271,355	28,785,692
Unallocated expenses					(1,377,973)
Extra ordinary items					-
Profit before taxes					27,407,719
Income taxes					(12,131,784)
Net profit					15,275,935
		As at 31 March 2011			
Other information					
Segment assets	537,905,689	95,998,718	261,568,781	4,900,857	900,374,045
Unallocated assets					11,110,703
Total assets					911,484,748
Segment liabilities	180,962,595	223,189,353	358,026,251	11,053,854	773,232,053
Unallocated liabilities					1,377,973
Total net assets					136,874,722

In computing the above information, certain estimates and assumptions have been made by the management, which were relied upon by the auditors.

Geographical segments

The Bank does not have overseas operations and is considered to operate only in the domestic segment.

5.9 *Related parties*

The related parties of the Bank are broadly classified as follows:

a. Parent

The Hongkong and Shanghai Banking Corporation Limited, Hong Kong is the head office of the Bank and HSBC Holdings plc is the ultimate holding company of the Bank.

b. Branch offices

Branch offices comprise all branches of The Hongkong and Shanghai Banking Corporation Limited outside of India.

c. Fellow subsidiaries

Fellow subsidiaries comprise companies, which have a common ultimate holding company, HSBC Holdings plc, ie HSBC Bank plc, Hang Seng Bank Limited, HSBC Bank Brasil S.A – Banco Multiplo, HSBC Global Resourcing (UK) Limited, HSBC Securities and Capital Markets (India) Private Limited, HSBC Asset Management (India) Private Limited, HSBC Professional Services (India) Private Limited, HSBC Electronic Data Processing India Private Limited, HSBC Operations and Processing Enterprise (India) Private Limited, HSBC Private Equity Management (Mauritius) Limited (Liaison office), HSBC Software Development (India) Private Limited, HSBC Global Shared services (India) Private Limited, HSBC Bank of Middle East, HSBC Bank Canada, HSBC Private Banking Holdings (Suisse) SA, HSBC Republic Bank (UK) Ltd, HSBC Bank Malaysia Berhad, HSBC Trinkaus and Burkhardt AG, British Arab Commercial Bank Limited, HSBC Bank Mauritius Limited, HSBC Bank Australia Ltd, HSBC Bank Argentina S.A., HSBC Bank Egypt S.A.E., SB HSBC Bank Kazakhstan JSC, HSBC Bank International Limited, HSBC France, HSBC InvestDirect (India) Limited, HSBC InvestDirect Securities (India) Ltd,

5. Notes to accounts *(Continued)*

5.9 Related parties (Continued)

c. Fellow subsidiaries (Continued)

Investsmart Financial Services Ltd, HSBC InvestDirect Distribution Services (India) Limited, IL&FS Investsmart Asia Pacific Private Limited, HSBC InvestDirect Academy for Insurance and Finance (India) Ltd, Investsmart Insurance Agency Private Limited, HSBC Bank USA, N.A

d. Key management personnel and subsidiaries

The Chief Executive Officer ('CEO') is considered the Key Management Personnel of the Bank.

HSBC Agency (India) Private Limited is the only subsidiary of the Bank.

The transactions of the Bank with related parties are detailed below except where there is only one related party (ie key management personnel and subsidiary):

(Rs. '000)

	Parent		Fellow subsidiaries	
	31 March 2012	31 March 2011	**31 March 2012**	31 March 2011
Interest paid	-	-	**748,834**	442,618
Interest received	-	-	**5,449**	10,255
Rendering of services	-	-	**382,382**	394,897
Receiving of services	**1,842,955**	1,377,973	**1,890,294**	1,809,665

(Rs. '000)

	Branch offices	
	31 March 2012	31 March 2011
Interest paid	**180,653**	113,723
Interest received	**5,215**	50,303
Rendering of services	**37,599**	10,503
Receiving of services	**2,749,890**	189,745

Balances with related parties are as follows:

(Rs. '000)

Parent	As at 31 March 2012	Maximum[1] during the year 2012	As at 31 March 2011	Maximum during the year 2011
Borrowings	-	-	-	-
Deposit	-	-	-	-
Placement of deposits	-	-	-	-
Advances	-	-	-	-
Nostro balances	-	-	-	-
Other liabilities	**1,842,955**	**1,842,955**	1,377,973	1,377,973
Non-funded commitments	-	-	-	-

5. Notes to accounts *(Continued)*

5.9 Related parties (Continued)

d. Key management personnel and subsidiaries (Continued)

(Rs. '000)

Branch offices	As at 31 March 2012	Maximum[1] during the year 2012	As at 31 March 2011	Maximum during the year 2011
Borrowings	**46,126,837**	**69,404,789**	-	27,647,297
Deposit	**1,186,026**	**2,506,422**	127,499	1,669,235
Placement of deposits	**29,075**	**15,962,680**	10,297	31,009,021
Advances	-	-	-	-
Nostro balances	**34,026**	**260,060**	127,054	261,375
Positive MTMs	**8,825,815**	**15,032,393**	10,466,810	12,583,014
Negative MTMs	**11,108,441**	**12,794,601**	8,995,679	13,647,496
Derivative notionals	**398,889,141**	**410,301,121**	332,189,104	390,704,703
Non-funded commitments	**2,227,240**	**2,275,380**	3,795,559	3,910,248

(Rs. '000)

Fellow Subsidiaries	As at 31 March 2012	Maximum[1] during the year 2012	As at 31 March 2011	Maximum during the year 2011
Borrowings	**7,631,521**	**19,392,059**	8,932,523	17,887,122
Deposit	**21,473,723**	**52,104,197**	21,811,159	25,263,476
Placement of deposits	**25,496,972**	**25,745,980**	12,212,785	17,844,435
Advances	-	-	-	-
Nostro balances	**11,728,795**	**12,155,550**	757,327	5,930,433
Positive MTMs	**31,183,415**	**42,951,638**	31,526,403	36,392,860
Negative MTMs	**26,999,498**	**32,617,848**	18,497,702	26,911,321
Derivative notionals	**955,278,877**	**1,091,001,952**	882,039,878	958,861,262
Investments	**100**	**100**	100	200
Non-funded commitments	**1,221,426**	**1,443,626**	9,554,940	10,849,149

[1]Maximum balances are determined based on comparison of the total outstanding balances at each quarter end during the financial year.

5. Notes to accounts *(Continued)*

5.9 Related parties (Continued)

d. Key management personnel and subsidiaries (Continued)

Material related party transactions

A related party transaction is disclosed as a material related party transaction wherever it exceeds 10% of all related party transactions in that category. Following are such related party transactions. All amounts are Indian rupees in thousands.

Interest received:

Interest received from The Hongkong and Shanghai Banking Corporation Limited, Hongkong branch Rs. 4,002 (previous year: Rs. 18,742), The Hongkong and Shanghai Banking Corporation Limited, Singapore branch Rs. 1,213 (previous year: Rs. 31,515) and Hang Seng Bank Limited Rs. 3,825 (previous year: Rs. 46) HSBC Bank plc Rs. 1,390 (previous year: Rs. 9,979).

Interest paid:

Payment of interest to The Hongkong and Shanghai Banking Corporation Limited, Hongkong branch Rs. 180,438 (previous year: Rs. 113,259), HSBC Software Development (India) Private Limited Rs. 261,552 (previous year: Rs. 38,177) and HSBC Electronic Data Processing India Private Limited Rs. 354,364 (previous year: Rs. 256,059).

Rendering of services:

Income from HSBC InvestDirect Securities (India) Limited Rs. 42,399 (previous year: Rs. 32,325), HSBC Electronic Data Processing India Private Limited Rs. 118,919 (previous year: Rs. 160,924), HSBC Securities and Capital Markets (India) Private Limited Rs. 77,540 (previous year: Rs. 47,919) and HSBC Asset Management (India) Private Limited Rs. 51,106 (previous year: Rs. 35,301).

Receiving of services:

Expenses for receiving of services from The Hongkong and Shanghai Banking Corporation, Hongkong branch Rs. 2,674,227 (previous year: Rs. 186,635), HSBC Electronic Data Processing India Private Limited Rs. 1,351,093 (previous year: Rs. 1,385,751) and The Hongkong and Shanghai Banking Corporation Limited, Hongkong (Head Office) Rs. 1,842,955 (previous year: Rs. 1,377,973).

Borrowings:

The Hongkong and Shanghai Banking Corporation, Hong Kong branch Rs. 46,126,837 (previous year: nil) and HSBC Private Banking Holdings (Suisse) SA, Rs. 7,631,250 (previous year: nil).

Placement of deposits:

Hang Seng Bank Limited Rs. 25,437,500 (previous year: Rs. 12,122,850).

Nostros:

Fellow subsidiaries-HSBC Bank, USA, N.A- Rs. 11,653,590 (previous year: nil).

Deposits:

HSBC Software Development Rs. 9,130,943 (previous year: Rs. 5,525,721) and HSBC Electronic Data Processing (India) Private Limited Rs. 7,467,494 (previous year: Rs. 7,257,689).

Non-funded commitments:

HSBC Securities and Capital Markets (India) Private Limited Rs. 809,750 (previous year: Rs. 933,000) and The Hongkong and Shanghai Banking Corporation, Singapore Rs. 2,046,193 (previous year: Rs. 1,567,136).

Notionals: The Hongkong and Shanghai Banking Corporation Limited, Hongkong branch Rs. 303,857,094 (previous year: Rs. 263,215,243) Hong Kong branch of HBAP Rs. 94,532,674 (previous year: Rs. 68,873,862) HSBC Bank plc Rs. 663,669,360 (previous year: Rs. 630,751,778) HSBC Bank USA, N.A Rs. 193,269,857 (previous year: Rs. 178,439,928).

Positive MTM: The Hongkong and Shanghai Banking Corporation Limited, Hongkong branch Rs. 8,172,782 (previous year: Rs. 9,175,981) Hong Kong branch of HBAP Rs. 652,890 (previous year: Rs. 1,290,539) HSBC Bank plc Rs. 25,557,772 (previous year: Rs. 28,315,776) HSBC Bank USA, N.A Rs. 2,846,152 (previous year: Rs. 1,736,165).

Negative MTM: The Hongkong and Shanghai Banking Corporation Limited, Hongkong branch Rs. 9,565,113 (previous year: Rs. 7,971,864) Hong Kong branch of HBAP Rs. 1,542,623 (previous year: Rs. 1,023,815) HSBC Bank plc Rs. 18,444,358 (previous year: Rs. 13,554,277) HSBC Bank USA, N.A Rs. 7,690,020 (previous year: Rs. 4,211,439).

5. Notes to accounts *(Continued)*

5.10 Deferred taxes

There was a deferred tax charge of Rs. 855 million (previous year deferred tax charge: Rs. 1,051 million) for the year ended 31 March 2012 which is included in the provision for taxation for the year.

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

(Rs. '000)

Deferred tax assets	**As at 31 March 2012**	As at 31 March 2011
Provision for doubtful advances	**4,319,575**	5,210,041
VRS & severance	**13,626**	30,617
Bonus, leave encashment	**364,214**	342,548
Others	**1,155,883**	1,025,072
Deferred tax assets	**5,853,298**	6,608,278
Deferred tax liability (for specific reserve)	**(342,926)**	(243,244)
Net Deferred Tax Asset	**5,510,372**	6,365,034

5.11 Operating Leases

Total lease rental of Rs. 1,015 million (previous year: Rs. 867 million) has been included under Operating expenses- Rent, taxes and lighting in the profit and loss account. The terms of escalation clauses are those normally prevalent in similar agreements.

Details of total future minimum lease payments under non-cancellable operating leases are set out below:

(Rs. '000)

	As at 31 March 2012	As at 31 March 2011
Not later than one year	**168,718**	20,000
Later than one year and no later than five years	**288,920**	-
Later than five years	**-**	-
Total	**457,638**	20,000

5. Notes to accounts *(Continued)*

5.12 Provisions and contingencies

Details of provisions for bonus points on credit cards and other provisions are set out below:

(Rs. '000)

	For year ended 31 March 2012		For year ended 31 March 2011	
	Bonus points	**Other provisions**	Bonus points	Other provisions
Opening balance at the beginning of the period	**162,185**	**646,098**	86,578	703,968
Add: Provision made during the period *(Note 5.6.c)*	**127,610**	**107,871**	171,152	170,394
Less: Utilisation, write back of excess provisions during the period	**(105,580)**	**(418,147)**	(95,545)	(228,264)
Closing balance at the end of the period	**184,215**	**335,822**	162,185	646,098

Note: Other provisions represent provision made for frauds, operating losses and legal cases.

Description of contingent liabilities

Claims against the Bank not acknowledged as debts - others

These represent various legal claims filed against the Bank in its normal course of business. It also includes claims/demands raised by Income tax authorities, which are disputed by the Bank.

Liability on account of forward exchange and derivative contracts

The Bank enters into foreign exchange contracts, currency options, forward rate agreements, currency swaps, interest rate swaps and interest rate options on its own account and for customers. Forward exchange contracts are commitments to buy or sell foreign currency at a future date at the contracted rate. A foreign currency option is an agreement between two parties in which one grants to the other the right to buy or sell a specified amount of currency at a specific price within a specified time period or at a specified future time. Currency swaps are commitments to exchange cash flows by way of interest/principal in one currency against another, based on predetermined rates. Forward Rate Agreements are agreements to pay or receive a certain sum based on a differential interest rate on a notional amount for an agreed period. Interest rate swaps are commitments to exchange fixed and floating interest rate cash flows. The notional amounts that are recorded as contingent liabilities are typically amounts used as a benchmark for the calculation of the interest component of the contracts.

Guarantees given on behalf of constituents, acceptances, endorsements and other obligations

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

Other items for which the Bank is contingently liable

These include undrawn commitments, irrevocable payment commitments, capital commitments and credit enhancements given in relation to securitisation transactions undertaken by the Bank.

5.13 Letter of comfort

The Bank has not issued any letter of comfort during the year ended 31 March 2012 and 31 March 2011.

5.14 Unsecured advances

The Bank does not have any advances secured by intangible assets.

5.15 Drawdown on reserves

The Bank has not drawn down on reserves during the year ended 31 March 2012 and 31 March 2011.

5. Notes to accounts *(Continued)*

5.16 Customer complaints

Customer complaints

	For the year ended 31 March 2012	For the year Ended 31 March 2011
No. of complaints pending at the beginning of the year	**308**	430
No. of complaints received during the year	**24,385**	35,347
No. of complaints redressed during the year	**24,550**	35,469
No. of complaints pending at the end of the year	**143**	308

Awards passed by Banking Ombudsman

	For the year ended 31 March 2012	For the year ended 31 March 2011
No. of unimplemented awards at the beginning of the year	**0**	1
No. of awards passed by the Banking Ombudsman during the year	**0**	4
No of awards lapsed during the year	**0**	4
No. of unimplemented awards at the end of the year	**0**	0 (1 award lapsed)

5.17 Business acquisition

On 27 February 2012, the Bank negotiated an agreement to acquire the RBS Group plc's retail and commercial businesses in India. The total consideration will comprise a premium over the net asset value of the business being acquired. The acquisition is subject to regulatory approvals and is expected to be completed towards the end of 2012.

5.18 Prior period comparatives

Previous year figures have been regrouped and reclassified where necessary to conform to current year's presentation.

For **B S R & Co**
Chartered Accountants
Firm's Registration No: 101248W

For The Hongkong and Shanghai Banking Corporation Limited

For The Hongkong and Shanghai Banking Corporation Limited

N Sampath Ganesh
Partner

Richard Collie
Chief Financial Officer

Stuart P Milne
Chief Executive Officer, India

Membership No: 042554

Mumbai
22 June 2012

Mumbai
22 June 2012

Basel II –

Pillar 3 disclosures of India branches

for the year ended 31 March 2012

1. Scope of application

The capital adequacy framework applies to The Hongkong and Shanghai Banking Corporation Limited – India branches ('the Bank'). The Bank has a subsidiary, HSBC Agency (India) Private Limited, which is consolidated in line with AS 21 and full capital deduction is taken. The Bank does not have any other Group company where a pro-rata consolidation is done or any deduction is taken. The Group entity in which the Bank has minority interests which is neither consolidated nor capital deducted is HSBC Professional Services (India) Private Limited. The investments in these companies are appropriately risk weighted.

i. *Capital deficiencies in all subsidiaries not included in the consolidation*

The aggregate amount of capital in HSBC Agency (India) Private Limited of Rs. 200 (000s) is not included in the consolidation and is deducted from capital.

ii. *Banks total interest in insurance entities*

The Bank has no interests in any of the insurance entities of the group.

2. Capital structure

i. *Composition of Tier 1 capital (Audited)*

	(Rs. '000)
	As at 31 March 2012
Capital	**44,991,660**
Reserves	**74,937,775**
Innovative instruments	**-**
Other capital instruments	**-**
Amounts deducted from Tier 1 capital	**(5,569,168)**
Total Tier 1 capital	**114,360,266**

ii. *Tier 2 capital (Audited)*

The amount of Tier 2 capital (net of deductions) is Rs. 9,345,641 ('000).

iii. *Debt capital instruments in upper Tier 2 capital*

No debt capital instruments are included in upper Tier 2 capital.

iv. *Subordinated debt in lower Tier 2 capital (Audited)*

There is no amount outstanding in respect of subordinated debt as at 31 March 2012.

v. *Other deductions from capital*

There are no other deductions from capital.

vi. *Total eligible capital (Audited)*

The total eligible capital is Rs. 123,705,907 ('000).

3. Capital adequacy

The Bank's capital management framework is shaped by its structure, business model and strategic direction. There is a continuing need to focus on the effective management of risk, and commensurate capital to bear that risk. The Bank carefully assesses its growth opportunities relative to the capital available to support them, particularly in light of the economic environment and advent of Basel II.

The Bank maintains a strong discipline over capital allocation and ensuring that returns on investment cover capital costs.

3. Capital adequacy *(Continued)*

i. Capital requirements for credit risk

	(Rs. '000)
	As at 31 March 2012
Portfolios subject to standardised approach	**49,801,501**
Securitisation exposures	**-**
Capital requirements for credit risk	**49,801,501**

ii. Capital requirements for market risk

	(Rs. '000)
Standardised Duration Approach	**As at 31 March 2012**
Interest rate risk	**10,999,486**
Foreign exchange risk	**99,000**
Equity risk	**56,742**
Capital requirements for market risk	**11,155,228**

iii. Capital requirements for operational risk

The capital requirement for operational risk under the basic indicator approach is Rs. 8,438,792 ('000).

iv. Capital ratios

	(Rs. '000)
	As at 31 March 2012
Consolidated total capital ratio	**16.04%**
Consolidated Tier 1 capital ratio	**14.83%**

There is no significant subsidiary for which the above disclosure is required.

4. Credit risk:

a. General

Credit Risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. It arises principally from direct lending, trade finance, marked-to-market exposure from derivative contracts and certain off-balance sheet products such as guarantees, and from the Bank's holdings of assets in the form of debt securities.

Strategy and processes

The HSBC Group Head Office formulates high-level risk management policies for the HSBC Group worldwide. The Bank has formulated local credit guidelines consistent with HSBC policy and RBI guidelines. The Bank's risk management policies and procedures are subject to a high degree of oversight and guidance to ensure that all types of risk are systematically identified, measured, analysed and actively managed.

The Bank has standards, policies and procedures dedicated to the monitoring and management of credit risk, which include the following:

- Establish a separate Risk Management unit independent of business with a matrix of delegated approval authorities for the approval of credit risks.
- Establish and maintain the exposure norms policy. This policy delineates the bank's maximum exposures to individual customers, customer groups and other risk concentrations. This policy also ensures compliance with the ceilings and lending guidelines relating to specific market sectors and industries.

4. Credit risk: *(Continued)*

- Establish and maintain the Country Risk Plan, which is reviewed and revised at least annually, and more frequently if required. This contains the credit appetite in terms of grow/maintain and shrink sectors and minimum criteria that must be met by new customers.
- Constitute a Risk Management Committee ('RMC') consisting of senior executives, which reviews overall portfolio risks and key risks facing the Bank in India.
- Undertake independent review and objective assessment of the credit risk. All commercial non-bank credit facilities originated are subject to review prior to the facilities being committed to customers.
- Control exposures to banks and other financial institutions. The Group's credit and settlement risk limits to counterparties in the finance and government sectors are designed to optimise the use of credit availability and avoid excessive risk concentration.
- Manage exposures to debt securities by establishing controls in respect of the liquidity of securities held for trading and setting issuer limits for financial investments. Separate portfolio limits are established for asset-backed securities and similar instruments.
- Control cross-border exposures to manage country and cross-border risk through the imposition of country limits with sub-limits by maturity and type of business.
- Maintain and develop HSBC's risk rating framework and systems in order to classify exposures meaningfully and facilitate focused management of the risks involved. Rating methodologies are based upon a wide range of financial analytics together with market data-based tools, which are core inputs to the assessment of customer risk. For larger facilities, while full use is made of automated risk rating processes, the ultimate responsibility for setting risk ratings rests with the final approving executive. Risk grades are reviewed frequently and amendments, where necessary, are implemented promptly.

Structure and organisation

Credit approval authorities are delegated from the Chief Risk Officer at the Regional Head Office in Hong Kong to the Chief Executive Officer, India and the Chief Risk Officer, India. The Chief Risk Officer in India maintains a strong functional reporting line to the Chief Risk Officer in Hong Kong.

The Risk Management function is responsible for the quality and performance of its credit portfolios and for monitoring and controlling all credit risks in its portfolios, including those subject to approval by the Regional Head Office in Hong Kong.

Scope and nature of risk reporting, measurement, monitoring and mitigation

The Bank manages and directs credit risk management systems initiatives. HSBC has constructed a centralised database covering substantially all of the Group's direct lending exposures, to deliver an increasingly granular level of management reporting.

The Bank is required to maintain regular reporting on credit risk portfolio, to include information on large credit exposures, concentrations, industry exposures, levels of impairment provisioning and country exposures.

Non-performing advances

Non-performing advances are identified by periodic appraisals of the portfolio by management or in accordance with RBI guidelines, whichever is earlier.

Specific provisions are made on a case-by-case basis based on management's assessment of the degree of impairment of the advances (other than homogeneous unsecured retail loans), subject to the minimum provisioning levels prescribed by the RBI. When there is no longer any realistic prospect of recovery, the outstanding advance is written off.

Special attention is paid to problem exposures, which are subject to more frequent and intensive review and reporting, in order to accelerate remedial action. The bank engages with customers closely to work out of distress situations.

Subject to the minimum provisioning levels prescribed by the RBI, provision on homogeneous unsecured loans relating to retail business is assessed on a portfolio basis using the historical loss and/or net flow rate method.

b. Disclosures for portfolios under the standardised approach

The Bank uses the following External Credit Assessment Institutions (ECAIs) approved by RBI to calculate its capital adequacy requirements under the standardised approach to credit risk for Corporate, Bank and Sovereign counterparties.

4b. Credit risk: disclosures for portfolios under the standardised approach *(Continued)*

Domestic ECAIs for external ratings of Indian Corporates:

a. Credit Analysis and Research Limited

b. CRISIL Limited

c. FITCH India

d. ICRA Limited

The Bank used the ratings issued by the ECAIs (for both Long Term and Short Term facilities) to risk weight both funded as well as non-funded exposures on corporate customers.

The process used by the Bank to transfer public issue ratings onto comparable assets in the banking book is in line with the provisions advised in the Reserve Bank of India's Prudential Guidelines on Capital Adequacy and Market Discipline issued on 1st July 2011.

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

Risk weight mapping of long term corporate ratings

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

Risk weight mapping of short term corporate ratings

Short-term ratings				Risk weights
CARE	**CRISIL**	**FITCH**	**ICRA**	
CARE A1	CRISIL A1	FITCH A1	ICRA A1	30%
CARE A2	CRISIL A2	FITCH A2	ICRA A2	50%
CARE A3	CRISIL A3	FITCH A3	ICRA A3	100%
CARE A4	CRISIL A4	FITCH A4	ICRA A4	150%
CARE D	CRISIL D	FITCH D	ICRA D	150%
Unrated	Unrated	Unrated	Unrated	100%

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

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

4b. Credit risk: disclosures for portfolios under the standardised approach *(Continued)*

International ECAIs for external ratings of foreign banks, foreign sovereigns, foreign public sector entities and non-resident corporates:

a. Fitch

b. Moody's

c. Standard & Poor's

The process used by the Bank to transfer public issue ratings onto comparable assets in the banking book is in line with the provisions advised in Reserve Bank of India's guidelines.

The mapping of external credit ratings and risk weights for the above entities are provided in the grids below:

Risk weight mapping of foreign banks

S&P and Fitch ratings	AAA to AA	A	BBB	BB to B	Below B	Unrated
Moody's rating	Aaa to Aa	A	Baa	Ba to B	Below B	Unrated
Risk weight	20%	50%	50%	100%	150%	50%

Risk weight mapping of foreign sovereigns

S&P and Fitch ratings	AAA to AA	A	BBB	BB to B	Below B	Unrated
Moody's rating	Aaa to Aa	A	Baa	Ba to B	Below B	Unrated
Risk weight	0%	20%	50%	100%	150%	100%

Risk weight mapping of foreign public sector entities

S&P and Fitch ratings	AAA to AA	A	BBB	Below BB	Unrated
Moody's rating	Aaa to Aa	A	Baa to Ba	Below Ba	Unrated
Risk weight	20%	50%	100%	150%	100%

Risk weight mapping of non-resident corporates

S&P and Fitch ratings	AAA to AA	A	BBB	Below BB	Unrated
Moody's rating	Aaa to Aa	A	Baa to Ba	Below Ba	Unrated
Risk weight	20%	50%	100%	150%	100%

Policy for collateral valuation and management

It is the Bank's policy that all corporate and institutional facilities be reviewed (and hence revalued) at least on an annual basis. All deeds of ownership/titles related to collateral are held in physical custody under control of executives independent of the business.

For mortgages, the credit policy clearly outlines the acceptable Loan to value ratio (LVR) for different types of properties. With effect from 1 April 2011, the maximum LVR offered to customers cannot exceed 80% of the mortgaged property, except if approved under a special lending authority. The valuation of the property is initiated through a bank-empanelled valuer who is an expert on the subject matter. Additionally, for loans exceeding Rs. 5 million, dual valuations are also initiated in order to have the benefit of a second opinion on the mortgaged property. The disbursal of the loan is handled through an empanelled lawyer who in exchange collects the security documents from the borrower. The property documents thus collected are attached to the credit file and sent to central archives where the same is stored in a secure manner.

In the absence of an all India property price index, it is a challenge to benchmark and update the marked-to-market valuations of the properties financed by the bank on an ongoing basis. However, should a loan become an NPA, a fresh valuation is initiated through the bank-empanelled valuer and the provisions applicable are calculated accordingly.

4b. Credit risk: disclosures for portfolios under the standardised approach *(Continued)*

Main types of collaterals taken by HSBC

The main types of recognised collateral taken by the Bank appear in the list of eligible financial collaterals advised in Section 7.3.5 of RBI's Prudential Guidelines on Capital Adequacy and Market Discipline, and include (but are not limited to) cash on deposits, equities listed in a main index and/or a recognised exchange, units or shares in collective investment schemes and various recognised debt securities. Further the main types of recognised collateral taken by the Bank for mortgages include plots of land and ready and under construction properties.

Main types of guarantor counterparty and their creditworthiness

As stated in Section 7.5 of the RBI's Prudential Guidelines on Capital Adequacy and Market Discipline, certain guarantees are recognised for credit risk mitigation purposes. The main types of guarantees are from sovereigns, corporates and banks. With corporate guarantees, in order for it to be recognised as a credit risk mitigant, it must have an equivalent credit rating of AA- or above by a rating agency recognised by the RBI for capital adequacy purposes.

Information about (Market or Credit) risk concentrations within the mitigation taken

The quantum of the credit portfolio which benefits from financial collaterals and/or guarantees as credit risk mitigants is an insignificant portion of the customer advances of the Bank. Therefore the credit and/or market concentration risks are not material

The total exposure (including non-funded post CCF) that is covered by eligible financial collateral, after the application of haircuts is Rs. 59,400,092 ('000).

i. Total gross credit risk exposures

		(Rs. '000)
		As at 31 March 2012
Fund based Note 1	**Non fund based** Note 2	**Total**
518,733,716	**613,473,880**	**1,132,207,596**

Note 1: Amount represents funded exposure before credit risk mitigants.

Note 2: Amount represents non-funded exposure after applying credit conversion factor and before credit risk mitigants.

ii. Geographical distribution of exposures

			(Rs. '000)
			As at 31 March 2012
	Fund based	**Non fund based**	**Total**
Overseas	-	-	-
Domestic	**518,733,716**	**613,473,880**	**1,132,207,596**
Total	**518,733,716**	**613,473,880**	**1,132,207,596**

4b. Credit risk: disclosures for portfolios under the standardised approach *(Continued)*

iii. Industry type distribution of exposures

(Rs. '000)

Industry	Fund based	Non fund based	Total
Coal	-	996,746	996,746
Mining	150,025	568,174	718,199
Iron and steel	2,246,480	5,601,863	7,848,343
Other metals and metal products	8,767,305	14,816,283	23,583,588
All engineering	12,770,247	25,165,695	37,935,942
Electricity (gen and trans)	1,896,141	89,809	1,985,950
Cotton textiles	7,506,214	-	7,506,214
Jute textiles	1,064	-	1,064
Other textiles	5,605,351	7,405,126	13,010,477
Sugar	811,375	-	811,375
Tea	267,381	-	267,381
Food processing	4,875,115	882,125	5,757,240
Vegetable oils (including Vanaspati)	3,186,827	26,251	3,213,078
Tobacco and tobacco products	1,253,788	89,831	1,343,619
Paper and paper products	5,722,428	4,403,988	10,126,416
Rubber and rubber products	2,769,577	1,430,719	4,200,296
Chemicals, engineering and infrastructure	21,992,020	37,248,233	59,240,253
Cement	2,538,830	3,468,860	6,007,690
Leather and leather products	177,905	31,854	209,759
Gems and jewellery	199,135	3,500	202,635
Construction	24,960,892	4,466,532	29,427,424
Petroleum	21,865,981	34,048,022	55,914,003
Automobiles including trucks	15,334,114	13,592,679	28,926,793
Computer software	7,307,075	7,002,998	14,310,073
Infrastructure	51,897,160	32,961,779	84,858,939
Other industries	112,413,247	154,494,113	266,907,360
NBFCs and trading	27,527,992	3,051,837	30,579,829
Banking and finance	115,135,085	255,548,685	370,683,770
Retail advance	59,554,962	6,078,178	65,633,140
Total	**518,733,716**	**613,473,880**	**1,132,207,596**

4b. Credit risk: disclosures for portfolios under the standardised approach *(Continued)*

iv. Residual contractual maturity breakdown of total assets

	(Rs. '000)
	As at 31 March 2012
1 day	**206,919,579**
2 to 7 days	**23,468,169**
8 to 14 days	**28,749,916**
15 to 28 days	**60,823,364**
29 days and up to 3 months	**183,785,972**
Over 3 months and up to 6 months	**129,101,743**
Over 6 months and up to 1 year	**138,229,400**
Over 1 year and up to 3 years	**140,502,759**
Over 3 years and up to 5 years	**75,377,050**
Over 5 years	**105,284,823**
Total	**1,092,242,775**

v. Amount of NPAs (gross)

	(Rs. '000)
	As at 31 March 2012
Substandard	**3,224,301**
Doubtful 1	**1,714,595**
Doubtful 2	**1,444,608**
Doubtful 3	**347,259**
Loss	**470,341**
Total (Audited)	**7,201,104**

vi. Net NPA (Audited)

The net NPA is Rs. 2,203,435('000).

vii. NPA ratios

	As at 31 March 2012
Gross NPAs to gross advances	**2.00%**
Net NPAs to net advances (Audited)	**0.62%**

viii. Movement of NPAs (Audited)

			(Rs. '000)
	Gross NPAs	**Provision**	**Net NPA**
Opening balance as at 1 April 2011	**9,955,304**	**7,467,872**	**2,487,432**
Additions during the period	**4,722,760**	**2,406,531**	**2,316,229**
Reductions during the period	**(7,476,960)**	**(4,876,734)**	**(2,600,226)**
Closing balance as at 31 March 2012	**7,201,104**	**4,997,669**	**2,203,435**

4b. Credit risk: disclosures for portfolios under the standardised approach *(Continued)*

ix. Non-performing investments (Audited)

Non-performing investments as at 31 March 2012 are Rs. 5. This represents 3 equity share investments and 2 preference share investments which have each being written down to Re. 1.

x. Movement of provisions for depreciation on investments (Audited)

	(Rs. '000)
	For the year ended 31 March 2012
Opening balance	**5,139,418**
Provisions during the year	**-**
Write offs during the year	**-**
Write back of excess provisions during the year	**(1,621,331)**
Closing balance	**3,518,087**

xi. Exposure under various risk buckets (post CRM)

	(Rs. '000)
	As at 31 March 2012
Below 100% risk weight	**791,084,110**
100% risk weight	**282,713,721**
Above 100% risk weight	**46,092,559**
Deductions*	**(5,604,133)**
Total	**1,114,286,257**
*Deduction represents amounts deducted from Capital Funds	

4c. Securitisation: disclosure for standardised approach

Where the Bank securitises advances have originated, these are done by selling them to a Special Purpose Vehicle ('SPV'), mainly in order to diversify its sources of funding. The Bank has no investment in securities issued by any SPV. In case the loan is derecognised from the books, no capital needs to be maintained. However the Bank is required to make appropriate reduction from capital for credit enhancements provided in line with the RBI guidelines. The bank has not securitised any loans during the current financial year. For accounting policy followed by the bank in respect of securitisation, refer to the 'Significant Accounting Policies' disclosed in the financial statements of the Bank.

ECAIs used

The Bank uses one of the following ECAIs for all types of securitisation deals:

a. Credit Analysis and Research Limited

b. CRISIL Limited

c. FITCH India

d. ICRA Limited

i. Details of securitisation of standard assets (Audited)

	Retail loans	**Corporate loans**
Total number of loan assets securitised during the year	-	-
Total book value of loan assets securitised during the year (Rs. '000)	-	-
Sale consideration received for the securitised assets (Rs. '000)	-	-

4c. Credit risk: securitisation: disclosure for standardised approach *(Continued)*

	Retail loans	Corporate loans
Gain on sale on account of securitisation during the year (Rs. '000)	-	-
Gain on securitisation recognised in Income Statement (Rs. '000)	**1,586**	**2,157**
The unamortised gain as at 31 March 2012 (Rs. '000)	**3,981**	-
Outstanding value of services provided by way of Credit Enhancement (Rs. '000)	**40,025**	-

The gain on sale on account of securitisation for corporate loans represents the difference between the sale consideration and the book value. The gain on sale on account of securitisation on retail loans represents the discounted value of the excess interest strip retained by the Bank.

ii. *Securitisation of impaired/past due assets*

The Bank has not securitised any impaired/past due assets.

iii. *Loss recognised on securitisation of assets*

The Bank has not recognised any losses during the current period for any securitisation deal.

iv. *Securitisation exposures retained or purchased*

The Bank has not purchased any securitisation exposures nor does it have any retained securitisation exposure.

5. Market risk in trading book

The objective of HSBC's market risk management is to manage and control market risk exposures in order to optimise return on risk while maintaining a market profile consistent with the Group's status as one of the world's largest banking and financial services institutions.

Market risk is the risk that movements in foreign exchange rates, interest rates, or equity prices will result in profits or losses to the Bank. Market risk arises on financial instruments, which are measured at fair value in the trading book. It also arises on instruments carried at cost in the banking books. The objective of market risk management is to control market risk exposures to achieve an optimal return while maintaining risk at acceptable levels.

Strategy and processes

The Bank separates exposures to market risk into trading and non-trading portfolios. Trading portfolios include those positions arising from market-making, proprietary position taking and other marked-to-market positions so designated.

Non-trading portfolios (included in the banking book) include positions that arise from the interest rate management of the Bank's retail and commercial banking assets and liabilities, financial investments designated as available-for-sale and held-to-maturity.

The risk components apply equally to cash and to derivative instruments. All open market risk is subject to approved limits. Limits are established to control the level of market risk and are complementary to counterparty credit limits.

The existence of a market risk trading limit does not confer any credit, counterparty, country or sovereign risk limit; they are established separately through normal credit procedures.

The level of market risk limits set for each operation depends upon: the size, financial and capital resources of the business, the business plan, the experience and track record of the management, dealers and market environment, as well as the Group's appetite.

Market risk limits are reviewed annually.

5. Market risk in trading book *(Continued)*

Structure and organisation of management of risk

The Bank has an independent market risk management and control function within the treasury middle office, which is responsible for measuring market risk exposures in accordance with prescribed policies, and monitoring and reporting these exposures against the approved limits on a daily basis. The monitoring of the risks is against limits assigned to the Treasurer by the Chief Executive Officer. The Treasurer allocates limits down to desks by risk type (Interest Rate and FX).

Scope and nature of risk measurement, reporting and monitoring

Market risk in trading portfolios is monitored and controlled using a complementary set of techniques. These include Value at Risk ("VAR") and, for interest rate risk, present value of a basis point ('PVBP') movement in interest rates, net open positions for Foreign Exchange, vega limits for options, together with stress and sensitivity testing and concentration limits. These techniques quantify the impact on capital of defined market movements. The Bank does not operate in gold or commodity markets. Certain strategic equity investments are held by the Bank, otherwise it does not operate in the equity markets.

VAR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. The Bank calculates VAR using the historical simulation methodology over last two years' market data, at 99% confidence level for a one-day holding period. VAR limits are set for the Trading and Total treasury portfolios.

PVBP limits are set for the Bank for the Trading and Banking book. Limits are set in terms of face value and/or tenor.

Stress limits/Disaster Limits are also set which measure the sensitivity of the book to significant combined moves in the underlying interest rate, volatility and exchange rates. Limits are also set on FX Vega for the FX Options portfolio. The Bank sets and monitors daily and monthly stop loss limits.

The limit structure facilitates the risk management of the individual market risks by setting limits for these risk types individually, via option scenario matrices and via appropriate stress scenarios, and the management of market risk on an overall basis by setting VAR limits. These limits are established to control the level of market risk and are complementary to counterparty and credit limits.

i. Capital requirements for market risk

	(Rs. '000)
	As at 31 March 2012
Interest rate risk	**10,999,486**
Foreign exchange risk	**99,000**
Equity position risk	**56,742**
Total	**11,155,228**

6. Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk. It is inherent in every business organisation and covers a wide spectrum of issues.

Strategy and process

The Bank manages this risk within a control-based environment in which processes are documented, authorisation is independent and transactions are reconciled and monitored. This is supported by an independent programme of periodic reviews undertaken by internal audit and internal control departments, and continuous reviews by Concurrent Audit and by monitoring external operational risk events, which ensure that the Bank stays in line with industry best practice and takes account of learnings from publicised operational failures within the financial services industry.

Structure and organisation

The RMC of the Bank, constituted by the senior most executives, is responsible for the Operational Risk management of the Bank. The RMC meets monthly, or more frequently if required, to assess and monitor operational risks and, where appropriate, authorise mitigating actions. The RMC is supported by an independent Operational Risk Management team within the Risk function. Furthermore, senior representatives from each business and function are tasked with responsibility for ongoing operational risk management. The RMC is also supported by the

6. Operational risk *(Continued)*

Operational Risk Management Committee ('ORMC'), which is constituted by the Chief Risk Officer, Chief Financial Officer and the senior representatives of the businesses and functions responsible for operational risk management, which meets to discuss operational risk issues and operationalise mitigating actions authorised by the RMC.

Scope and nature of risk reporting, monitoring and mitigation

The Bank has codified its operational risk management process by a high level standard, supplemented by more detailed formal guidance. This explains how the Bank manages operational risk by identifying, assessing, monitoring, controlling and mitigating the risk, rectifying operational risk events, and implementing any additional procedures required for compliance with RBI requirements.

Information systems are used to record the identification and assessment of operational risks and to generate appropriate, regular management reporting.

Assessments are undertaken of the operational risks facing businesses and the risks inherent in its processes, activities and products. Risk and Control Assessment is done on a regular basis.

The operational risk loss data is collected on a monthly basis, above the reporting threshold of Rs. 10,000 mandated by RBI. A regular report on operational losses is made to the Bank's senior management through the RMC. A consolidated summary and scorecard of the operational loss incidents affecting the key businesses is shared with the Bank's senior management on a bi-monthly basis and significant loss events, gaps, mitigants etc are discussed.

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

The banking book is defined as:

i. Underlying value of assets and liabilities as well as off-balance-sheet instruments that are managed (transferred to) Treasury via the Funds Transfer Pricing mechanism.

ii. Investments held in the available-for-sale portfolio in line with general accounting principles.

iii. Funding transactions to manage the liquidity of the bank.

Market risk in the banking book arises principally from structural mismatches in assets and liabilities and from off-balance-sheet instruments arising from repricing risk, yield curve risk and basis risk.

Further, an analysis of these risks incorporates assumptions on optionality in certain products such as in mortgage prepayments, and from behavioural assumptions regarding the economic duration of liabilities, which are contractually repayable on demand, for example, current accounts.

IRRBB does not incur a capital charge. It is monitored as part of the Bank's Internal Capital Adequacy Assessment Process.

Strategy and process

In order to manage this risk efficiently, interest rate risk in the banking book is transferred to the supervision of the Treasurer.

The transfer of market risk to the Treasury is achieved through a formal transfer pricing framework wherein a series of internal deals are executed between the business units and Treasury. In certain products, the interest rate risk behaviour may differ from the contractual nature thereby requiring a study to determine the correct approach in managing the risk. This is achieved through a behaviouralisation study that is periodically updated and placed before the Asset and Liability Committee for approval, along with underlying assumptions.

In certain cases, the non-linear characteristics of products typified through customer behaviour, cannot be adequately captured by the risk transfer process. For example, both the flow from customer deposit accounts to alternative investment products and the precise prepayment rate of mortgages will vary at different interest rate levels. In such circumstances, simulation modelling is used to identify the impact of varying scenarios on valuations and net interest income.

Structure and organisation

The Bank has an independent market risk management and control function within the treasury mid office, which is responsible for measuring interest rate risk exposures in accordance with prescribed policies, monitoring and reporting these exposures against the approved limits on a daily basis. This monitoring process effectively builds on the level of interest rate risk that is commensurate with the capital held.

7. Interest rate risk in the banking book (IRRBB) *(Continued)*

Scope and nature of risk reporting, measurement, monitoring and mitigation

The Bank monitors the sensitivity of projected net interest income under varying interest rate scenarios. The Bank effectively identifies, measures, monitors and controls the interest rate risk in the banking book, to mitigate the impact of prospective interest rate movements, which could reduce future net interest income, whilst balancing the cost of such hedging activities on the current net revenue stream.

The Bank manages the interest rate risk arising from commercial banking activities in order to maximise the return commensurate with its capital base, without exposing the bank to undue risk arising from movements in market interest rates. This involves the use of money market and derivative instruments available in the interbank market, in order to achieve the economic perspective set by Management on future market rates and market liquidity.

i. *Sensitivity to upward shocks*

					(Rs. crore)
IRRBB: Sensitivity to upwards 100 bps movement in interest rates by currency					**As at 31 March 2012**
Currency	**INR**	**USD**	**EUR**	**Other FCY**	**Total**
Sensitivity	**(121)**	**(7)**	**0.1**	**(3)**	**(130)**

The above does not include investments and derivatives in the banking book as these are classified as held for trading for capital calculations.

ii. *Sensitivity to downward shocks*

					(Rs. crore)
IRRBB: Sensitivity to downwards 100 bps movement in interest rates by currency					**As at 31 March 2012**
Currency	**INR**	**USD**	**EUR**	**Other FCY**	**Total**
Sensitivity	**(65)**	**(4)**	**(0.1)**	**(5)**	**(75)**

The above does not include investments and derivatives in the banking book as these are classified as held for trading for capital calculations.

iii. *Impact on earnings (NII)*

Parallel movement in yield curve

INR millions	Commercial Banking	ALCO pool	Treasury	Sub-total	Intersegment elimination	For the year ended 31 March 2012
+100 Bps	2,445	309	(299)	2,455	(1,118)	1,337
-100 Bps	(2,219)	(307)	217	(2,309)	1,158	(1,151)

*Ramp Movements in Yield Curve**

INR millions	Commercial Banking	ALCO pool	Treasury	Sub-total	Intersegment elimination	For the year ended 31 March 2012
+100 Bps	1,502	166	(170)	1,498	(729)	769
-100 Bps	(1,340)	(85)	(17)	(1,442)	741	(701)

*Rates are assumed to rise/fall in parallel by 25bps on the first day of each quarter.

The earnings risk analysis is based on the management's internal method to assess risk on earnings to interest rate movements over the next year and factors in certain assumptions on business growth over the next 12 months.

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Juhu Vile Parle
Eden Square, Plot No. 3/1, N. S. Road No. 10,
JVPD Scheme, Juhu Vile Parle (West),
Mumbai – 400 049
Tel: +91(22) 6684 6310/15/05

Lokhandwala
E-2/3/4, Manish Garden
Ground Floor, J P Road
Andheri (West), Mumbai 400 058
Tel: +91(22) 4042 2424

Peddar Road
Asha Mahal
46 B, Dr G Deshmukh Marg
Mumbai 400 026
Tel: +91(22) 4042 2424

Powai
Prudential House, Ground Floor
Hiranandani Business Park
Powai, Mumbai 400 076
Tel: +91(22) 4042 2424

Thane
Ish Krupa
Ram Maruti Road, Naupada
Thane (West) 400 602
Tel: +91(22) 4042 2424

Ahmedabad
Mardia Plaza, C G Road
Ahmedabad 380 006
Tel: +91(98) 9827 2424

Pune
Amar Avinash Corporate City
Sector No. 11, Bund Garden Road
Pune 411 011
Tel: +91(20) 6602 8585

Shivaji Nagar
Pradeep Chambers, 813/A, Shop No 3
Bhandarkar Road, Shivaji Nagar
Pune 411 004
Tel: +91(20) 6602 8585

Vadodara
Benison Complex,
Opposite Rajlaxmi Complex, Old Padra Road,
Vadodara - 390007
Tel: +91(98) 9827 2424

Indore
Darshan Mall, Upper Ground Floor,
15/2, Race Course Road,
Indore – 452 001, Madhya Pradesh
Tel: +91(731) 98932 72424

Nagpur
Shriram Shyam Towers
Shop No. 6 & 7, S V Patel Marg
Kingsway, Nagpur 440001
Tel: +91(731) 99600 42424

Surat
Riddhi Plaza, Opposite Kribhco Township,
Hazira, Surat District, Gujarat – 394510
Tel: +91(98) 9827 2424

Nasik
Deolali Centre Mall, Survey No 27- E,
House No 27, Lam Road, Deolali Camp,
Nasik District, Maharashtra - 422401
Tel: +91(99) 6004 2424

Eastern India

Kolkata (Main Branch)
31 BBD Bagh, Dalhousie Square
Kolkata 700 001
Tel: +91(33) 2243 8585

Gariahat
Fort Terrazo, 5 Ramani Chatterjee Road
Kolkata - 700029
Tel: +91(33) 2243 8585

Howrah
21, Grand Trunk Road (South)
Howrah 711 101
Tel: +91(33) 2243 8585

Ultadanga
P-158, Nazrul Islam Avenue
Kolkata 700 054
Tel: +91(33) 2243 8585

Salt Lake
EC 18, Sector I, Salt Lake,
Kolkata 700 064
Tel: +91(33) 3091 3501

New Alipore
375, Block 'G', New Alipore
Kolkata 700 053
Tel: +91(33) 2243 8585

Shakespeare Sarani
Jasmine Towers, 31, Shakespeare Sarani
Kolkata 700 017
Tel: +91(33) 2243 8585

Patna
Kataruka Niwas, South Gandhi Maidan
Patna 800001
Tel: +91(612) 99313 62424

Raipur
S.L.T. Water front, Gourav Path,
Telibandha, G E Road,
Raipur - 492006
Tel: +91(0771) 98932 72424

Guwahati
G. S. Road, Bhangagarh, Guwahati,
Assam - 781005
Tel: 1860 266 2667

Northern India

New Delhi (Main Branch)
25, Birla Towers, Barakhamba Road
New Delhi 110 001
Tel: +91(11) 2373 8989

BasantLok
12, Basant Lok, New Delhi 110 057
Tel: +91(11) 2373 8989

Greater Kailash I
R-47, Greater Kailash-I
New Delhi 110 048
Tel: +91(11) 2373 8989

South Extension
F-43, South Extension - I
New Delhi 110 049
Tel: +91(11) 2373 8989

Gurgaon
JMD Regent Square
Gurgaon-Mehrauli Road, DLF Phase II,
Gurgaon 122 001, Haryana
Tel: +91 9511 99107 92424

Chandigarh
SCO 1, Sector 9-D
Chandigarh 160 017
Tel: +91(172) 98769 22424

Noida
K 14-18, Sector 18
Gautam Budh Nagar
NOIDA – 201 301
Uttar Pradesh
Tel: +91 9511 99107 92424

Jaipur
Vasanti Building
61-A, Sardar Patel Marg
C-Scheme, Jaipur 302 001
Tel: +91(141) 99280 32424

Ludhiana
Ludhiana Stock Exchange Building
Feroze Gandhi Market,
Ludhiana 141 001
Tel: +91(161) 98769 22424

Punjabi Bagh
No. 34, Central Market
Sector II, West Avenue Road
Punjabi Bagh (West)
New Delhi 110026
Tel: +91(11) 2373 8989

Lucknow
1 Shah Nazaf Road
Hazrat Ganj
Lucknow – 226001
Tel: +91(522) 99351 42424

Jodhpur
Plot No. C – 43A(2)
PWD Colony
Jodhpur – 342001
Tel: +91(291) 99280 32424

Southern India

Chennai (Main Branch)
96, Dr Radhakrishnan Salai
Mylapore, Chennai 600 004
Tel: +91(44) 2526 9595

Adyar
Rajalakshmi Palace
No 43, I Main Road
Adyar, Chennai 600 020
Tel: +91(44) 2526 9595

Bangalore (M G Road)
7, Mahatma Gandhi Road
Bangalore 560 001
Tel: +91(80) 2558 9595

Bangalore (Jayanagar)
No. 84, Gandhi Bazar Main Road,
Basavanagudi,
Bangalore – 560 004
Tel: +91(80) 6643 2009

Mysore
No.1, Block III, Kalidasa Road
Jayalakshmipuram
Mysore 570 002
Tel: +91(821) 99809 22424

Coimbatore
Srivari Gokul Towers, 108,
Race Course Road
Coimbatore 641 018
Tel: +91 98943 72424

Hyderabad
6-3-1107 & 1108
Raj Bhavan Road, Somajiguda
Hyderabad – 500 082
Tel: +91(40) 2335 8686

Kochi
Pulikkal Estate, M. G. Road
Pallimukku, Kochi – 682 016
Tel: +91 98954 72424

Trivandrum
Kulathakal Towers, Diamond Hill,
Vellayambalam, Trivandrum 695 010
Tel: +91 98954 72424

Visakhapatnam
10-1-38/B, Vinayagar Paradise
Waltair Uplands, T B Road
Visakhapatnam – 530 003
Andhra Pradesh
Tel: +91 98490 12424

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