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The Hongkong and Shanghai Banking Corporation Limited – India Branches
(Incorporated in Hong Kong SAR with limited liability)

Independent Auditor's Report

To the Chief Executive Officer
The Hongkong and Shanghai Banking Corporation Limited – India Branches

Report on the Financial Statements

1. We have audited the accompanying financial statements of The Hongkong Banking Corporation Limited – India Branches ('the Bank'), which comprise the Balance Sheet as at 31 March 2013 and the Profit and Loss Account and the Cash Flow Statement for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

2. Management is responsible for preparation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Bank in accordance with provisions of Section 29 of the Banking Regulation Act, 1949 read with Section 211 of the Companies Act, 1956 and circulars and guidelines issued by the Reserve Bank of India from time to time. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

3. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of the Bank including its branches in accordance with Standards on Auditing ('the Standards') issued by the Institute of Chartered Accountants of India. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements.

4. An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

6. In our opinion and to the best of our information and according to the explanations given to us, the said financial statements together with the notes thereon give the information required by the Banking Regulation Act, 1949 as well as the Companies Act, 1956, in the manner so required for banking companies and give a true and fair view in conformity with accounting principles generally accepted in India:

   (a) in the case of the Balance Sheet, of the state of affairs of the Bank as at 31 March 2013;

   (b) in the case of the Profit and Loss Account, of the profit of the Bank for the year ended on that date; and

   (c) in the case of the Cash Flow Statement, of the cash flows of the Bank for the year ended on that date.

Report on Other Legal and Regulatory Requirements

7. The Balance Sheet, the Profit and Loss Account and the Cash Flow Statement have been drawn up in accordance with the provisions of Section 29 of the Banking Regulation Act, 1949 read with Section 211 of the Companies Act, 1956.

8. We report that:

   (a) we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit and have found them to be satisfactory;

   (b) the transactions of the Bank, which have come to our notice, have been within the powers of the Bank;

   (c) during the course of our audit we have visited 6 branches. Since the key operations of the Bank are automated with the key applications integrated to the core banking systems, the audit is carried out centrally as all the necessary records and data required for the purposes of our audit are available therein.

The Hongkong and Shanghai Banking Corporation Limited – India Branches
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9. In our opinion, the Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt with by this report comply with the Accounting Standards referred to in subsection (3C) of section 211 of the Companies Act, 1956, to the extent they are not inconsistent with the accounting policies prescribed by the Reserve Bank of India.

10. We further report that:

    (i) the Balance Sheet and the Profit and Loss Account dealt with by this report are in agreement with the books of account;

    (ii) the financial accounting systems of the Bank are centralised and, therefore, accounting returns are not submitted by the branches;

    (iii) in our opinion, proper books of account as required by law have been kept by the Bank so far as appears from our examination of those books;

    (iv) 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

Sd/-
N Sampath Ganesh
Partner
Membership No: 042554

Mumbai
21 June 2013

The Hongkong and Shanghai Banking Corporation Limited – India Branches
(Incorporated in Hong Kong SAR with limited liability)

Balance Sheet for India Branches as at 31 March

(Currency: Indian rupees in thousands)

	Schedules	**2013**	2012
CAPITAL AND LIABILITIES			
Capital	*1*	**44,991,660**	44,991,660
Reserves and surplus	*2*	**106,966,131**	104,545,247
Deposits	*3*	**568,660,021**	614,233,213
Borrowings	*4*	**177,107,947**	104,774,729
Other liabilities and provisions	*5*	**163,978,711**	223,697,929
TOTAL		**1,061,704,470**	1,092,242,778
ASSETS			
Cash and balances with Reserve Bank of India	*6*	**49,636,709**	39,295,649
Balances with banks and money at call and short notice	*7*	**41,854,007**	76,178,823
Investments	*8*	**451,787,009**	403,238,487
Advances	*9*	**357,087,012**	355,122,822
Fixed assets	*10*	**8,981,388**	8,420,477
Other assets	*11*	**152,358,345**	209,986,520
TOTAL		**1,061,704,470**	1,092,242,778
Contingent liabilities	*12*	**9,721,507,151**	10,096,856,027
Bills for collection		**142,147,333**	128,621,115
Significant accounting policies and notes to accounts	*18*		

Schedules referred to herein form an integral part of the Balance Sheet.

Profit and Loss Account for India Branches for the year ended 31 March

(Currency: Indian rupees in thousands)

	Schedules	**2013**	2012
INCOME			
Interest earned	*13*	**70,331,775**	62,625,715
Other income	*14*	**17,242,203**	22,007,660
TOTAL		**87,573,978**	84,633,375
EXPENDITURE			
Interest expended	*15*	**30,006,312**	25,168,137
Operating expenses	*16*	**24,646,490**	24,182,963
Provisions and contingencies	*17*	**13,564,035**	15,405,573
TOTAL		**68,216,837**	64,756,673
Net profit for the year		**19,357,141**	19,876,702
Profit brought forward		**20,884,318**	18,616,495
TOTAL		**40,241,459**	38,493,197
APPROPRIATIONS			
Transfer to statutory reserve		**4,839,285**	4,969,176
Transfer to investment reserve		**1,234,154**	704,987
Transfer to specific reserve		**141,968**	237,204
Transfer to Remittable Surplus retained in India for Capital to Risk-weighted Assets Ratio (CRAR) requirements		**3,308,000**	3,790,834
Profit Remitted to Head Office		**17,576,318**	7,670,528
Transfer to Capital Reserve - Surplus on sale of immovable properties		–	236,150
Balance carried over to balance sheet		**13,141,734**	20,884,318
TOTAL		**40,241,459**	38,493,197
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

Sd/-
N Sampath Ganesh
Partner
Membership No: 042554

Sd/-
Richard Collie
Chief Financial Officer

Sd/-
Stuart P Milne
Group General Manager & Chief Executive Officer, India

Mumbai
21 June 2013

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The Hongkong and Shanghai Banking Corporation Limited – India Branches
(Incorporated in Hong Kong SAR with limited liability)

Cashflow statement for India Branches for the year ended 31 March

(Currency: Indian rupees in thousands)

		2013	2012
Cash flow from operating activities			
Net profit before taxes		**34,291,662**	35,451,364
Adjustments for:			
Depreciation on fixed assets		**365,863**	503,144
(Profit) on revaluation of provision for depreciation on investments		**(2,838,309)**	(1,621,331)
Provision for advances		**1,237,416**	1,216,761
Other provisions		**230,407**	235,481
Profit on sale of fixed assets		**(5,700)**	(233,898)
		33,281,339	35,551,52
Adjustments for:			
(Increase) in investments (excluding held to maturity securities)		**(45,710,212)**	(28,826,311)
(Increase) in advances		**(3,201,606)**	(82,333,372)
Increase in borrowings		**72,333,218**	54,511,631
(Decrease)/increase in deposits		**(45,573,192)**	73,166,098
Decrease/(increase) in other assets		**57,903,652**	(35,345,103)
(Decrease)/ Increase in other liabilities and provisions		**(59,949,624)**	40,182,635
		(24,197,764)	21,355,578
Direct taxes paid		**(15,210,000)**	(16,394,708)
Net cash (used in)/generated from operating activities	*(A)*	**(6,126,425)**	40,512,391
Cash flow from investing activities			
Purchase of fixed assets		**(310,563)**	(198,848)
Proceeds from sale of fixed assets		**29,550**	709,447
Net cash generated/(used in) from investing activities	*(B)*	**(281,013)**	510,599
Cash flow from financing activities			
Profit remitted to Head Office		**(17,576,318)**	(7,670,528)
Net cash (used in) financing activities	*(C)*	**(17,576,318)**	(7,670,528)
Net (decrease)/increase in cash and cash equivalents	*(A) + (B) + (C)*	**(23,983,756)**	33,352,462
Cash and cash equivalents at 1 April		**115,474,472**	82,122,010
Cash and cash equivalents at 31 March		**91,490,716**	115,474,472

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

Sd/-
N Sampath Ganesh
Partner
Membership No: 042554

Mumbai
21 June 2013

For The Hongkong and Shanghai Banking Corporation Limited

Sd/-
Richard Collie
Chief Financial Officer

Sd/-
Stuart P Milne
Group General Manager
& Chief Executive Officer, India

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The Hongkong and Shanghai Banking Corporation Limited – India Branches
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Notes forming part of the Balance Sheet of India Branches as at 31 March

(Currency: Indian rupees in thousands)

	2013	2012
1 CAPITAL		
I Amount of deposit kept with the Reserve Bank of India under Section 11(2) (b) of the Banking Regulation Act,1949.	**24,703,216**	19,734,036
II **Capital**		
Opening balance	**44,991,660**	44,991,660
	44,991,660	44,991,660
2 RESERVES AND SURPLUS		
I **Statutory Reserve**		
Opening balance	**24,602,517**	19,633,341
Additions during the year	**4,839,285**	4,969,176
	29,441,802	24,602,517
II **Capital Reserves - Surplus on sale of Immovable properties**		
Opening balance	**1,731,524**	1,066,566
Transfer from Profit and loss account and revaluation reserve	**–**	664,958
	1,731,524	1,731,524
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	**35,342,172**	31,551,338
Add : Transfer from profit and loss account *(see schedule 18 note 5.1)*	**3,308,000**	3,790,834
	38,650,172	35,342,172
V **Revaluation Reserve**		
Opening balance	**6,904,503**	6,877,300
Add: Revaluation of premises net of depreciation on revaluation uplift	**640,061**	456,011
Less: Transfer to capital reserve-surplus on sale of immovable properties	**–**	(428,808)
	7,544,564	6,904,503
VI **Investment Reserve**		
Opening balance	**1,002,623**	297,636
Transfer from the Profit and Loss account	**1,234,154**	704,987
	2,236,777	1,002,623
VII **Specific Reserve** *(see schedule 18 note 5.5)*		
Opening balance	**816,025**	578,821
Additions during the year	**141,968**	237,204
	957,993	816,025
VIII **Balance in Profit and Loss Account**	**13,141,734**	20,884,318
TOTAL (I+II+III+IV+V+VI+VII+VIII)	**106,966,131**	104,545,247

	2013	2012
3 DEPOSITS		
A. I. Demand Deposits		
i) From banks	**3,113,320**	2,407,228
ii) From others	**147,392,582**	168,157,746
Total i) and ii)	**150,505,902**	170,564,974
II. Savings Bank Deposits	**119,916,832**	116,602,776
III. Term Deposits		
i) From banks	**17,241,575**	16,415,703
ii) From others	**280,995,712**	310,649,760
Total i) and ii)	**298,237,287**	327,065,463
TOTAL (I+II+III)	**568,660,021**	614,233,213
B. I. Deposits of branches in India	**568,660,021**	614,233,213
II. Deposits of branches outside India	**–**	–
TOTAL (I+II)	**568,660,021**	614,233,213
4 BORROWINGS		
I **Borrowings in India**		
i) Reserve Bank of India	**106,270,000**	49,000,000
ii) Other banks	**37,377**	17,604
iii) Other institutions and agencies	**749,661**	–
Total i), ii) and iii)	**107,057,038**	49,017,604
II **Borrowings outside India**	**70,050,909**	55,757,125
TOTAL (I+II)	**177,107,947**	104,774,729
Secured borrowings included in I above	**105,000,000**	49,000,000
5 OTHER LIABILITIES AND PROVISIONS		
I Bills payable	**2,927,443**	3,784,455
II Inter-office adjustments Branches in India (net)	**–**	–
III Interest accrued	**8,100,384**	7,884,199
IV Provision towards standard assets (*See schedule 18 Note 5.6 (ai)*)	**5,174,899**	5,270,957
V Others (including provisions)	**147,775,985**	206,758,318
TOTAL (I+II+III+IV+V)	**163,978,711**	223,697,929
6 CASH AND BALANCES WITH RESERVE BANK OF INDIA		
I Cash in hand and in ATM's (including foreign currency notes)	**992,654**	1,095,077
II Balances with the Reserve Bank of India		
i) In current account	**48,644,055**	38,200,572
ii) In other accounts	**–**	–
Total i) and ii)	**48,644,055**	38,200,572
TOTAL (I+II)	**49,636,709**	39,295,649

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The Hongkong and Shanghai Banking Corporation Limited – India Branches
(Incorporated in Hong Kong SAR with limited liability)

Notes forming part of the Balance Sheet of India Branches as at 31 March

(Currency: Indian rupees in thousands)

	2013	2012
7 BALANCES WITH BANKS AND MONEY AT CALL & SHORT NOTICE		
I In India		
i) Balances with banks		
a) in current accounts	**3,916,561**	4,284,886
b) in other deposit accounts	**17,642,625**	16,534,375
Total a) and b)	**21,559,186**	20,819,261
ii) Money at call and short notice		
a) with banks	**1,250,000**	3,750,000
b) with other institutions	**–**	14,239,447
Total a) and b)	**1,250,000**	17,989,447
Total i) and ii)	**22,809,186**	38,808,708
II Outside India		
i) In current accounts	**9,544,946**	11,932,615
ii) In other deposit accounts	**–**	–
iii) Money at call and short notice	**9,499,875**	25,437,500
Total i), ii) and iii)	**19,044,821**	37,370,115
TOTAL (I+II)	**41,854,007**	76,178,823
8 INVESTMENTS		
A. Investments in India in		
i) Government securities	**277,474,535**	212,475,908
ii) Other approved securities	**3,000,000**	–
iii) Shares - fully paid	**161,103**	121,103
iv) Debentures and bonds	**63,373,374**	29,836,425
v) Subsidiaries and/or joint ventures:	**200**	200
vi) Others (CDs, CPs, Pass Through Certificates etc)	**107,777,797**	160,804,851
TOTAL i), ii), iii), iv), v) and vi)	**451,787,009**	403,238,487
B. Gross value of Investments in India	**452,884,737**	406,756,574
Aggregate provision for depreciation in India	**(1,097,728)**	(3,518,087)
NET VALUE OF INVESTMENTS IN INDIA	**451,787,009**	403,238,487
9 ADVANCES		
A. i) Bills purchased and discounted #	**46,435,827**	62,411,812
ii) Cash credits, overdrafts and loans repayable on demand	**178,396,883**	177,614,358
iii) Term loans	**132,254,302**	115,096,652
TOTAL i), ii) and iii)	**357,087,012**	355,122,822
B. i) Secured by tangible assets (including advances against book debt)	**181,523,982**	170,068,796
ii) Covered by Bank/ Government guarantees	**34,363,443**	35,929,847
iii) Unsecured	**141,199,587**	149,124,179
TOTAL i), ii) and iii)	**357,087,012**	355,122,822
C. i) Priority sectors (including export finance)	**98,969,786**	107,425,174
ii) Public sector	**–**	–
iii) Banks	**4,450,000**	1,100,000
iv) Others	**253,667,226**	246,597,648
TOTAL i), ii), iii) and iv)	**357,087,012**	355,122,822
# net of bills rediscounted amounting to Rs. Nil [previous year Rs 0.6 (‘000)]		
10 FIXED ASSETS		
I Premises (including leasehold improvements) *(SeeSchedule 18 note 5.2)*		
Cost at 1 April (including revaluation)	**9,555,304**	9,517,827
Additions during the year	**74,775**	27,373
Revaluation of premises during the year	**642,415**	457,857
Deductions during the year	**(53,862)**	(447,753)
	10,218,632	9,555,304
Depreciation to date	**(1,598,072)**	(1,506,248)
Net book value of Premises (including leasehold improvements)	**8,620,560**	8,049,056
II Other Fixed Assets (including furniture and fixtures)		
Cost at 1 April	**5,394,104**	5,298,721
Additions during the year	**235,787**	171,475
Deductions during the year	**(206,299)**	(76,092)
	5,423,592	5,394,104
Depreciation to date	**(5,062,764)**	(5,022,683)
Net book value of Other Fixed Assets (including furniture and fixtures)	**360,828**	371,421
TOTAL (I+II)	**8,981,388**	8,420,477
11 OTHER ASSETS		
I Inter-office adjustments Branches in India (net)	**–**	–
II Interest accrued	**7,274,107**	5,216,291
III Tax paid in advance/ tax deducted at source (net)	**5,841,193**	5,565,714
IV Deferred tax (net)	**5,865,851**	5,510,372
V Stationery and stamps	**3,424**	5,843
VI Non-banking assets acquired in satisfaction of claims	**–**	–
VII Others	**133,373,770**	193,688,300
TOTAL (I+II+III+IV+V+VI+VII)	**152,358,345**	209,986,520

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The Hongkong and Shanghai Banking Corporation Limited – India Branches
(Incorporated in Hong Kong SAR with limited liability)

Notes forming part of the Balance Sheet of India Branches as at 31 March

(Currency: Indian rupees in thousands)

		2013	2012
12	**CONTINGENT LIABILITIES** *(See Schedule 18 note 5.12)*		
I	Claims against the bank not acknowledged as debts (including tax matters) *(See Schedule 18 note 5.4)*	**3,917,873**	3,340,173
II	Liability for partly paid investments	**500**	500
III	Liability on account of outstanding forward exchange and derivative contracts		
	i) Forward contracts	**3,006,225,667**	4,067,384,917
	ii) Currency options	**255,999,531**	425,479,567
	iii) Derivative contracts	**6,076,654,709**	5,253,539,874
	Total i), ii) and iii)	**9,338,879,907**	9,746,404,358
IV	Guarantees given on behalf of constituents		
	i) In India	**213,399,769**	143,510,299
	ii) Outside India	**28,026,376**	19,956,830
	Total i) and ii)	**241,426,145**	163,467,129
V	Acceptances, endorsements and other obligations	**76,325,172**	137,797,372
VI	Bills rediscounted	–	1
VII	Other items for which the bank is contingently liable	**60,957,554**	45,846,494
	TOTAL (I+II+III+IV+V+VI+VII)	**9,721,507,151**	10,096,856,027

Notes forming part of the Profit and Loss Account of India Branches for the year ended 31 March

(Currency: Indian rupees in thousands)

		2013	2012
13	**INTEREST EARNED**		
I	Interest/discount on advances/ bills	**35,401,772**	27,496,698
II	Income on investments	**33,266,022**	32,127,996
III	Interest on balances with Reserve Bank of India and other inter-bank funds	**987,040**	2,680,772
IV	Others	**676,941**	320,249
	TOTAL (I+II+III+IV)	**70,331,775**	62,625,715
14	**OTHER INCOME**		
I	Commission, exchange and brokerage (net)	**8,236,635**	10,340,631
II	Profit/(Loss) on sale/ maturity of investments (net)	**547,840**	(1,819,160)
III	Profit/(Loss) on disposal of land, buildings and other assets (net)	**5,700**	233,898
IV	Profit on exchange transactions/derivative transactions (net)	**8,087,501**	12,745,486
V	Miscellaneous income	**364,527**	506,805
	TOTAL (I+II+III+IV+V)	**17,242,203**	22,007,660
15	**INTEREST EXPENDED**		
I	Interest on deposits	**27,232,444**	23,279,216
II	Interest on Reserve Bank of India/inter-bank borrowings	**2,752,237**	1,828,279
III	Others	**21,631**	60,642
	TOTAL (I+II+III)	**30,006,312**	25,168,137
16	**OPERATING EXPENSES**		
I	Payments to and provisions for employees	**10,903,181**	9,550,642
II	Rent, taxes and lighting	**1,425,470**	1,345,966
III	Printing and stationery	**117,982**	124,811
IV	Advertisement and publicity	**517,609**	650,709
V	Depreciation on Bank's property	**365,863**	503,144
VI	Auditors' fees and expenses	**4,000**	4,000
VII	Law charges	**162,613**	529,278
VIII	Postage, telegrams, telephones, etc.	**402,913**	464,224
IX	Repairs and maintenance	**494,970**	566,843
X	Insurance	**823,224**	792,130
XI	Other expenditure *(See Schedule 18 note 5.6 (ae))*	**9,428,665**	9,651,216
	TOTAL (I+II+III+IV+V+ VI+VII+VIII+IX+X+XI)	**24,646,490**	24,182,963
17	**PROVISIONS AND CONTINGENCIES** *(See Schedule 18 note 5.6 (c))*		
I	Provision for advances	**1,237,416**	1,216,761
II	Other provisions	**230,407**	235,481
III	Taxation charge		
	– Current tax expense	**15,290,000**	14,720,000
	– Deferred tax charge/(credit)	**(355,479)**	854,662
		14,934,521	15,574,662
IV	(Release) of provision for depreciation on investments *(See Schedule 18 note 5.6 (c) and (d))*	**(2,838,309)**	(1,621,331)
	TOTAL (I+II+III+IV)	**13,564,035**	15,405,573

The Hongkong and Shanghai Banking Corporation Limited – India Branches
(Incorporated in Hong Kong SAR with limited liability)

Notes forming part of the Financial Statements of India Branches for the year ended 31 March 2013

NOTES 18 – SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

1 Background

The financial statements for the year ended 31 March 2013 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 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 settlement 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.

Pass through certificates ('PTC') purchased have been marked to market on the basis of the base yield curve and the applicable spreads as per the spread matrix relative to the weighted average maturity of the paper as notified by FIMMDA.

Treasury Bills, Commercial Paper, Certificates of Deposit and Zero Coupon Bonds being discounted instruments, are valued at carrying cost.

(d) Transfer between categories

Transfer of investments between categories is accounted for in accordance with RBI guidelines vide master circular DBOD No. BP BC 13/21.04.141/2012-13, from 2 July 2012 as follows:

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

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NOTES 18 – SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS *(Continued)*

4 Significant accounting policies *(Continued)*

4.1 Investments (Continued)

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 collateralized borrowing and lending respectively with an agreement to repurchase on agreed terms in accordance with RBI guidelines vide master circular DBOD No. BP.BC.13/21.04.141/2012-13 dated 2 July 2012. 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 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 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.

Notes forming part of the Financial Statements of India Branches for the year ended 31 March 2013

NOTES 18 – SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS *(Continued)*

4 Significant accounting policies *(Continued)*

4.4 Derivative financial instruments (Continued)

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 unrealized 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 such as market liquidity, depth, parameters not fully observable in the market and Credit / Debit Valuation Adjustment ('CVA / DVA'). CVA adjusts the fair value of a derivative to reflect the probability of default ('PD') of a counterparty to meet its obligations under a derivative contract. DVA adjusts the fair value of a derivative to reflect the PD of the Bank failing to meet its obligations under a derivative contract.

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 (including revisions to the guidelines dated 7 May 2012).

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.9/21.04.048/2012-13 dated 2 July 2012 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.

Dividend on equity shares is recognised as income when the right to receive dividend is established.

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 fund, which is a defined contribution scheme. The contributions are accounted for on an accrual basis and recognised in the profit and loss account.

(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.

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NOTES 18 – SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS *(Continued)*

4 Significant accounting policies *(Continued)*

4.7 Employee benefits (Continued)

(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 utilized, 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 / softwares	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.

4.9 Accounting for leases

Assets taken on lease are accounted for in accordance with provisions of AS 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.

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NOTES 18 – SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS *(Continued)*

4 Significant accounting policies *(Continued)*

4.10 Taxes on income (Continued)

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 and debit cards

The Bank has a policy of awarding reward points for credit card and debit card spends by customers. Provision for credit card reward points is made on the basis of behavioural analysis of utilization trends. Provision for debit card reward points is made based on management estimates for want of empirical data on redemption pattern.

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 has appropriated Rs. 3,308 million (previous year: Rs.3,791 million) of accumulated profits 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. 642 million (previous year: Rs. 457 million) based on an independent professional valuation.

Certain premises valued at Rs. 6,974 million (previous year: Rs. 6,301 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. Nil (previous year: Rs. 236 million) and the balance in the revaluation reserve amounting to Rs. Nil (previous year: Rs. 429 million) with respect to these properties are transferred to the Capital Reserves-Surplus on sale of immovable properties.

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 nationalized 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.

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NOTES 18 – SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS *(Continued)*

5 Notes to accounts *(Continued)*

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 2009-2010 and TDS assessment year 2005-2006 to 2011-12 certain tax matters are in appeal. The contingent liability on this account is approximately Rs. 3,405 million (previous year: Rs. 2,823 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 as per RBI guidelines is set out below:

(Rs '000)

	As at 31 March 2013 (Basel II)	As at 31 March 2012 (Basel II)
Tier I capital	**120,804,915**	114,360,266
Tier II capital	**10,771,016**	9,345,641
Total capital	**131,575,931**	123,705,907
Total risk weighted assets & contingents	**769,574,433**	771,061,350
Capital ratios		
Tier I capital	**15.70%**	14.83%
Tier II capital	**1.40%**	1.21%
Total capital	**17.10%**	16.04%
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.16/21.06.001/2012-13 dated 2 July 2012.

(b) Business ratios / information

The details relating to business ratios are given below:

	For the year ended 31 March 2013	For the year ended 31 March 2012
Interest income as percentage to working funds[1]	**6.57%**	6.22%
Non-interest income as percentage to working funds[1]	**1.61%**	2.19%
Operating profits as percentage to working funds[1]	**3.07%**	3.50%
Return on assets[2]	**1.81%**	1.97%
Business (deposits plus advances) per employee (Rs '000)[3]	**188,988**	165,892
Net profit per employee (Rs '000)	**4,041**	3,469

1 Working funds are reckoned as average of total assets 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 are with reference to average working funds (i.e. total of assets excluding accumulated losses, if any).

3 Interbank deposits have been excluded for computing business per employee (deposits plus advances)

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NOTES 18 – SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS *(Continued)*

5 Notes to accounts *(Continued)*

5.6 Statutory disclosures (Continued)

(c) Provisions and Contingencies

(Rs '000)

Break up of provisions and contingencies shown under the head expenditure in Profit & Loss account	For the year ended 31 March 2013	For the year ended 31 March 2012
(Release) of provision for depreciation on investment	**(2,838,309)**	(1,621,331)
Provision towards NPA (including write-offs net of write backs)	**1,333,474**	1,152,043
Provision towards standard assets	**–**	–
(Release) / Provision towards country risk	**(96,058)**	64,718
Provision towards current tax expense	**15,290,000**	14,720,000
Provision towards deferred tax charge / (credit)	**(355,479)**	854,662
Other Provisions and Contingencies (refer note 5.12):		
Provision towards impaired assets	**14,571**	–
Provision towards reward points	**158,775**	127,610
Provision towards off balance sheet exposures	**–**	108,314
(Release) towards claims under litigation	**–**	(443)
Provision towards onerous contracts	**11,783**	–
Provision for overdue income	**44,719**	–
Others	**559**	–
Total	**13,564,035**	15,405,573

(d) Investments

(Rs '000)

	As at 31 March 2013	As at 31 March 2012
(1) Value of investments		
(i) Gross value of investments	**452,884,737**	406,756,574
(a) In India	**452,884,737**	406,756,574
(b) Outside India	**–**	–
(ii) Provision for depreciation	**(1,097,728)**	(3,518,087)
(a) In India	**(1,097,728)**	(3,518,087)
(b) Outside India	**–**	–
(iii) Net value of investments	**451,787,009**	403,238,487
(a) In India	**451,787,009**	403,238,487
(b) Outside India	**–**	–
(2) Movement of provisions held towards depreciation on investments		
(i) Opening balance	**3,518,087**	5,139,418
(ii) Add : Provision made during the year		
(iii) Less :Write back of excess provision during the year	**(2,838,309)**	(1,621,331)
(iv) Add: MTM on hedging swaps reclassified as trading swaps as at 31 March 2013*	**417,950**	–
(v) **Closing balance**	**1,097,728**	3,518,087

The outstanding commitments relating to securities purchase and sale contracts as at 31 March 2013 are Rs. 11,507,310 (previous year: Rs.3,953,229) and Rs. 14,833,766 (previous year: Rs.12,400,152) respectively.

*Effective 1 April 2012 swaps reported as hedging swaps have been reclassified as trading swaps.

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NOTES 18 – SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS *(Continued)*

5 Notes to accounts *(Continued)*

5.6 Statutory disclosures (Continued)

(e) Issuer wise composition of non SLR investments

(Rs '000)

		As at 31 March 2013				
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	**44,541,286**	**9,489,051**	–	**1,000**	**1,000**
(ii)	Financial Institutions	**13,921,849**	**5,650,000**	–	–	–
(iii)	Banks	**84,677,533**	**64,508,145**	–	–	–
(iv)	Private Corporate	**28,530,891**	**25,609,895**	–	**160,103**	**3,434,549**
(v)	Subsidiaries / Joint Ventures	**500**	**500**	–	**500**	**500**
(vi)	Others	–	–	–	–	–
(vii)	Provision held towards depreciation	**(359,585)**	–	–	–	–
	Total	**171,312,474**	**105,257,591**	–	**161,603**	**3,436,049**

Note: Total investments include net investments in PTC of Rs. 18,530,911 thousand (Previous Year: Rs. Nil)

* 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.

**Excludes PTCs in line with extant RBI guidelines.

(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

* 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 2013 are Rs. 6 (previous year: Rs. 4). This represents 3 equity share investments and 3 preference share investments which have each been written down to Re. 1.

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NOTES 18 – SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS *(Continued)*

5 Notes to accounts *(Continued)*

5.6 Statutory disclosures (Continued)

(g) Repo transactions (in face value terms)

(Rs '000)

	Minimum Outstanding During the Year 2012-13	Maximum Outstanding During the Year 2012-13	Daily Average Outstanding During the Year 2012-13	Outstanding as at 31 March 2013
Securities sold under repos				
i. Government securities	**2,000,000**	**110,250,000**	**7,843,301**	**110,250,000**
ii. Corporate debt securities	–	–	–	–
Securities purchased under reverse repos				
i. Government securities	**50,000**	**67,920,000**	**10,293,005**	–
ii. Corporate debt securities	–	–	–	–

(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	–	–	–	–

Notes:

1 The above figures also include Liquidity Adjustment Facility / 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 2013			For the Year March 2012		
	Gross NPA	Provision	Net NPA	Gross NPA	Provision	Net NPA
(a) Opening Balance	**7,201,104**	**4,997,669**	**2,203,435**	9,955,304	7,467,872	2,487,432
(b) Additions during the period	**1,929,398**	**1,300,943**	**628,455**	4,722,733	2,406,531	2,316,229
(c) Reductions during the period	**(2,722,179)**	**(1,080,459)**	**(1,641,720)**	(7,476,933)	(4,876,734)	(2,600,227)
(d) Closing Balance	**6,408,323**	**5,218,153**	**1,190,170**	7,201,104	4,997,669	2,203,434

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 0.33 % as at 31 March 2013 (previous year: 0.62%).

(j) Provision coverage ratio

The provision coverage ratio (ratio of provision to gross non-performing assets) computed in accordance with RBI circular no DBOD.No.BP.BC. 64/21.04.048/2009-10 dated 1 December 2009 is 81.43 % as at 31 March 2013 (previous year: 69.40%).

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NOTES 18 – SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS *(Continued)*

5 Notes to accounts *(Continued)*

5.6 Statutory disclosures (Continued)

(k) Movement of Gross NPAs

(Rs '000)

	For the year ended 31 March 2013	For the year ended 31 March 2012
Gross NPAs* as on 1st April	**7,201,104**	9,955,304
Additions (fresh NPAs during the year)	**1,929,398**	4,722,733
Sub-total (A)	**9,130,502**	14,678,037
Less:		
(i) Upgradations	**(756,229)**	(796,209)
(ii) Recoveries		
(excluding recoveries made from upgraded accounts)	**(1,233,550)**	(3,011,071)
(iii) Write-offs	**(732,400)**	(3,669,653)
Sub-total (B)	**(2,722,179)**	(7,476,933)
Gross NPAs as on 31st March (A-B)	**6,408,323**	7,201,104

*As per item 2 of Annex to DBOD Circular DBOD.No.BP.BC. 46/21.04.048/2009-10 dated 24 September 2009, interest in suspense has been deducted from gross NPAs.

(l) Floating Provision

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

(m) Lending to sensitive sectors

Exposure to real estate sector

(Rs '000)

Category	As at 31 March 2013	As at 31 March 2012
A Direct exposure	**109,739,150**	91,663,518
(i) Residential mortgages –		
Lendings fully secured by mortgages on residential property that is or will be occupied by the borrower or that is rented *	**78,605,124**	62,143,067
– Of which individual housing loans eligible for inclusion in priority sector advances	**4,424,598**	5,738,247
(ii) Commercial real estate	**31,134,026**	29,520,451
(iii) Investments in Mortgage Backed Securities (MBS) and other securitised exposures –		
a. Residential	–	–
b. Commercial Real estate	–	–
B Indirect exposure	**16,715,648**	14,310,615
Fund based and non-funded based exposures on National Housing Bank (NHB) and Housing Finance Companies	**16,714,704**	14,310,615
Others	**944**	–
Total exposure to real estate sector (A+B)	**126,454,798**	105,974,133

* Includes undrawn limits of Rs.16,486 million (previous year: Rs. 12,132 million) pertaining to mortgages on residential property.

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NOTES 18 – SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS *(Continued)*

5 Notes to accounts *(Continued)*

5.6 Statutory disclosures (Continued)

(m) Lending to sensitive sectors (Continued)

Exposure to capital market

(Rs. '000)

		As at 31 March 2013	As at 31 March 2012
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;	**16,100**	1,100
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;	**92,508**	94,898
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;	**74,732**	574,732
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 i.e. where the primary security other than shares/convertible bonds/convertible debentures/units of equity oriented mutual funds does not fully cover the advances;	–	–
v.	secured and unsecured advances to stockbrokers and guarantees issued on behalf of stockbrokers and market makers;	**7,678,909**	7,508,957
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;	**1,750,000**	700,000
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	**1,450,000**	2,050,817
	Total Exposure to Capital Market (i to xi)	**11,062,249**	10,930,504

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NOTES 18 – SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS *(Continued)*

5) Notes to accounts *(Continued)*

5.6 Statutory Disclosures (Continued)

(n) Restructured accounts

A) Particulars of accounts restructured

(Rs. '000)

Sr No	Type of Restructuring / Asset Classification		Under CDR Mechanism					Under SME Debt Restructuring Mechanism					Others					Total				
			Standard	Sub-Standard	Doubtful	Loss	Total	Standard	Sub-Standard	Doubtful	Loss	Total	Standard	Sub-Standard	Doubtful	Loss	Total	Standard	Sub-Standard	Doubtful	Loss	Total
1	Restructured accounts as on April 1 of the FY (opening figures)*	No of borrowers	-	3	-	-	3	-	-	-	-	-	6	12	24,603	-	24,621	6	15	24,603	-	24,624
		Amount outstanding	-	492,300	-	-	492,300	-	-	-	-	-	174,390	107,988	218,883	-	501,261	174,390	600,288	218,883	-	993,561
		Provision thereon	-	221,683	-	-	221,683	-	-	-	-	-	-	41,054	181,573	-	222,627	-	262,737	181,573	-	444,310
2	Fresh Restructuring during the year	No of borrowers	-	-	-	-	-	-	-	-	-	-	-	1	313	-	314	-	1	313	-	314
		Amount outstanding	-	-	-	-	-	-	-	-	-	-	-	73	13,766	-	13,839	-	73	13,766	-	13,839
		Provision thereon	-	-	-	-	-	-	-	-	-	-	-	18	13,800	-	13,818	-	18	13,800	-	13,818
3	Upgradations to restructured standard category during the FY	No of borrowers	-	-	-	-	-	-	-	-	-	-	(3)	-	-	-	(3)	(3)	-	-	-	(3)
		Amount outstanding	-	-	-	-	-	-	-	-	-	-	(220)	-	-	-	(220)	(220)	-	-	-	(220)
		Provision thereon	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4	Restructured standard advances which cease to attract higher provisioning and/or additional risk weight at the end of the FY and hence need not be shown as restructured standard advances at the beginning of the next FY	No of borrowers	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
		Amount outstanding	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
		Provision thereon	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5	Downgadations of restructured accounts during the FY	No of borrowers	-	(3)	3	-	-	-	-	-	-	-	-	(1)	1	-	-	-	(4)	4	-	-
		Amount outstanding	-	(492,300)	492,300	-	-	-	-	-	-	-	-	(105,410)	105,410	-	-	-	(597,710)	597,710	-	-
		Provision thereon	-	(221,683)	221,683	-	-	-	-	-	-	-	-	(40,598)	40,598	-	-	-	(262,281)	262,281	-	-
6	Write-off of restructured accounts during the FY	No of borrowers	-	-	-	-	-	-	-	-	-	-	-	(2)	(1,515)	-	(1,517)	-	(2)	(1,515)	-	(1,517)
		Amount outstanding	-	-	-	-	-	-	-	-	-	-	-	(755)	(23,250)	-	(24,005)	-	(755)	(23,250)	-	(24,005)
		Provision thereon	-	-	-	-	-	-	-	-	-	-	-	(755)	(23,250)	-	(24,005)	-	(755)	(23,250)	-	(24,005)
7	Restructured accounts as on March 31 of the FY (closing figures)*	No of borrowers	-	-	3	-	3	-	-	-	-	-	3	1	3,753	-	3,757	3	1	3,756	-	3,760
		Amount outstanding	-	-	268,500	-	268,500	-	-	-	-	-	10	73	121,690	-	121,773	10	73	390,190	-	390,273
		Provision thereon	-	-	130,400	-	130,400	-	-	-	-	-	-	18	123,496	-	123,514	-	18	253,896	-	253,914

*Excluding the figures of Standard Restructured Advances which do not attract higher provisioning or risk weight (if applicable).

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NOTES 18 – SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS ***(Continued)***

5 Notes to accounts ***(Continued)***

5.6 Statutory disclosures (Continued)

(o) Risk category wise Country Exposure

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

(Rs '000)

Classification	Exposure as at 31 March 2013*	Provision held as at 31 March 2013	Exposure as at 31 March 2012*	Provision held as at 31 March 2012
Insignificant	**219,350,497**	**52,909**	265,125,377	84,741
Low	**36,038,647**	**21,399**	57,699,345	85,625
Moderate	**3,183,988**	–	5,508,017	–
High	**6,974,427**	–	265,382	–
Very high	**46,163**	–	182,701	–
Restricted	**63,605**	–	91,725	–
Off-credit	–	–	4,400	–
Total	**265,657,327**	**74,308**	328,876,947	170,366

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

* Exposures are computed on gross basis

(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 Industries Limited, Larsen & Toubro Limited, Reliance Industries Limited, Siemens Limited, Tata Steel Limited, Tata Chemicals Limited, Tata Motors Limited and Wipro Limited.

(q) Concentration of Deposits

(Rs '000)

	As at 31 March 2013	As at 31 March 2012
Total Deposits of twenty largest depositors	**100,624,361**	110,321,290
Percentage of Deposits of twenty largest depositors to Total Deposits of the bank	**17.69%**	17.96%

(r) Concentration of Advances

(Rs '000)

	As at 31 March 2013	As at 31 March 2012
Total Advances of twenty largest borrowers	**325,989,498**	288,273,493
Percentage of Advances of twenty largest borrowers to Total Advances of the bank	**21.89%**	21.89%

(s) Concentration of Exposures

(Rs '000)

	As at 31 March 2013	As at 31 March 2012
Total Exposure of twenty largest borrowers / customers	**322,796,906**	293,919,767
Percentage of Exposures of twenty largest borrowers / customers to Total Exposure of the bank on borrowers / customers	**20.36%**	21.64%

(t) Concentration of NPAs

Total exposure to top four NPA accounts is Rs. 1,757 million (previous year Rs. 1,782 million). The exposure is computed on a gross basis.

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NOTES 18 – SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS *(Continued)*

5 Notes to accounts *(Continued)*

5.6 Statutory disclosures (Continued)

(u) Sector-wise NPAs

Sector	Percentage of Gross NPAs to Gross Advances in that sector	
	As at 31 March 2013	**As at 31 March 2012**
Agriculture & allied activities	**0%**	0%
Industry (Micro & small, Medium and Large)	**1.01%**	0.99%
Services	**2.70%**	3.10%
Personal Loans*	**2.71%**	3.83%

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

	For year ended 31 March 2013	**For year ended 31 March 2012**
Total number of loan assets securitized	–	–
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)	**1,762**	3,743
The unamortised gain as at 31 March (Rs '000)	**2,219**	3,981
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) Details of financial assets sold to Securitisation Companies (SC) / Reconstruction Companies (RC) for Asset Reconstruction

	For year ended 31 March 2013	**For year ended 31 March 2012**
Number of accounts	–	2
Aggregate value (net of provisions) of accounts sold to SC / RC (Rs '000)	–	1,107,990
Aggregate consideration (Rs '000)	–	530,000
Additional consideration realised in respect of accounts transferred in earlier years (Rs '000)	–	–
Aggregate (loss)* / gain over net book value (Rs '000)	–	(577,990)

*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.

(x) Details of non performing financial assets purchased / sold

There has been no purchase of NPAs during the year ended 31 March 2013 (previous year Rs. Nil).

Details of NPAs sold during the year ended 31 March 2013 are provided in Note 5.6 (w).

(y) Off Balance Sheet SPVs

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

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NOTES 18 – SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS *(Continued)*

5 Notes to accounts (Continued)

5.6 Statutory disclosures (Continued)

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

(Rs '000)

No.	Items	As at 31 March 2013	As at 31 March 2012
(i)	The notional principal of swap agreements	**5,440,027,603**	4,636,516,886
(ii)	Losses which would be incurred if counterparties failed to fulfill their obligations under the agreements	**36,151,495**	43,807,579
(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%**	85%
(v)	The fair value of the swap book	**(4,037,878)**	(4,944,975)

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

		As at 31 March 2013		As at 31 March 2012	
Nature	Terms	No.	Notional principal (Rs '000)	No.	Notional principal (Rs '000)
Trading swaps	Receive floating pay floating	**42**	**63,791,520**	41	86,104,384
Trading swaps	Receive floating pay fixed	**3,829**	**2,904,209,978**	3,575	2,333,074,801
Trading swaps	Receive fixed pay floating	**3,580**	**2,472,026,105**	3,497	2,191,837,701
Hedging swaps	Receive floating pay fixed	–	–	59	25,500,000

There were no Forward rate agreements outstanding as at 31 March 2013 and 31 March 2012.

(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.

The Bank's mark-to-market valuations reflect consideration of certain factors not captured within core valuation models, market liquidity, depth, parameters not fully observable in the market and Credit / Debit Valuation Adjustment (CVA / DVA). CVA adjusts the fair value of a derivative to reflect the probability of default (PD) of a counterparty to meet its obligations under a derivative contract. DVA adjusts the fair value of a derivative to reflect the PD of the Bank failing to meet its obligations under a derivative contract.

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NOTES 18 – SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS *(Continued)*

5 Notes to accounts (Continued)

5.6 Statutory disclosures **(Continued)**

(aa) Risk exposure in derivatives (Continued)

During the year, the Bank revised its methodology for determining CVA for derivatives in line with the revised Group policy. PD, which until last year was based on historic levels, is now based on market observable data such as credit default swaps (CDS) spreads for counterparties. Where CDS spreads are not directly observable, PD is based on market implied levels or a combination of market implied and historical levels. The Bank has also aligned its methodology for determining the DVA to be consistent with that applied for CVA during the year. Historically, the Bank considered that a zero spread was appropriate in respect of own credit risk and consequently did not adjust derivative liabilities for its own credit risk. The consequent net impact of the above revision in methodology is not significant to the financial statements.

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.

Quantitative disclosure

(Rs '000)

Sr. No.	Particular	As at 31 March 2013 Currency Derivatives	As at 31 March 2013 Interest Rate Derivatives	As at 31 March 2012 Currency Derivatives	As at 31 March 2012 Interest Rate Derivatives
1	Derivatives (Notional Principal Amount)				
	a) for hedging	–	–	–	25,500,000
	b) for trading	**3,873,329,478**	**5,465,550,428**	5,082,205,440	4,638,698,918
2	Marked-to-Market Position				
	a) Asset (+)	**79,843,349**	**36,775,611**	132,589,413	44,436,767
	b) Liability (-)	**78,683,612**	**40,733,105**	126,419,287	49,282,285
3	Credit Exposure #	**199,536,685**	**81,073,254**	281,453,651	86,408,071
4	Likely impact of one percentage point change in interest rate (100*PV01)				
	a) on hedging derivatives	–	–	–	418,314
	b) on trading derivatives	**3,866,756**	**6,357,343**	5,195,312	4,649,702
5	Maximum and Minimum of 100*PV01 observed during the year				
	a) on hedging*				
	Maximum	–	–	–	1,069,623
	Minimum	–	–	–	246,412
	b) on trading				
	Maximum	**5,586,641**	**6,357,343**	5,477,777	4,984,491
	Minimum	**3,689,568**	**4,082,518**	3,337,805	3,634,246

#The credit exposure is computed based on the current exposure method specified in the RBI Basel II norms.
Currency derivatives include forwards, currency options and currency swaps.
Interest rate derivatives include Forward Rate Agreements, Interest Rate Options and Interest Rate Swaps.
*Effective 1 April 2012 swaps reported as hedging swaps have been reclassified as trading swaps.

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NOTES 18 – SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS *(Continued)*

5 Notes to accounts *(Continued)*

5.6 Statutory disclosures (Continued)

(ab) Exchange traded interest rate derivatives

(Rs. '000)

No.	Particulars	31 March 2013	31 March 2012
(i)	Notional principal amount of exchange traded interest rate derivatives undertaken during the year (instrument-wise)*		
	a) 91 day Treasury bills	–	5,175,800
	b) U.S. Dollar currency futures	**8,292,845**	48
(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 2013 (Previous year: Rs. Nil).

(ad) Penalties imposed by RBI

RBI vide letter dated 12 September 2012 imposed a penalty of Rs. 10 thousand for allowing an erstwhile Overseas Corporate Body to hold and renew FCNR (B) deposits which was not in conformity with extant RBI guidelines. The penalty amount was paid to RBI on 26 September 2012.

During the previous year, 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.

(ae) Operating Expenses – other expenditure

"Other expenditure" includes the following:

(Rs '000)

	For the year ended 31 March 2013	For the year ended 31 March 2012
Head office costs allocated	**1,914,755**	1,842,955
Services contracted out	**5,255,749**	4,471,193

(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 2013	31 March 2012
Principal amount remaining unpaid to any registered supplier as at the year end	**5,494**	8,075
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	–	–

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NOTES 18 – SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS *(Continued)*

5 Notes to accounts *(Continued)*

5.6 Statutory disclosures (Continued)

(ag) Bancassurance income

During the year, the Bank earned an amount of Rs.1,859 million towards bancassurance income (previous year: Rs. 2,770 million)

(Rs '000)

Nature of Income	For the year ended 31 March 2013	For the year ended 31 March 2012
For selling life insurance products	**171,989**	493,331
For selling non life insurance products	**17,426**	52,851
For selling mutual fund products	**1,669,389**	2,224,168
Total	**1,858,804**	2,770,350

(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 2013		
	Dated Government securities	State Government securities	Treasury Bills
Annual bidding commitment	**13,453**	**Not Applicable**	**30,500**
Bids tendered	**34,500**	**5,710**	**106,660**
Bids accepted	**13,293**	**1,262**	**17,986**
Success ratio	**Not Applicable**	**Not Applicable**	**58.97%**
Success ratio required as per RBI guidelines	**Not Applicable**	**Not Applicable**	**40.00%**

(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%

(ai) Provision towards Standard Assets

(Rs '000)

	As at 31 March 2013	As at 31 March 2012
Provision towards standard assets*	**4,407,815**	4,407,815
(Release) / Provision towards country risk (Refer note 5.6 (o))	**74,308**	170,366
Accumulated surplus arising on sale of NPA	**692,776**	692,776
Total	**5,174,899**	5,270,957

* Comprises general provision towards standard assets in accordance with RBI Master Circular DBOD. No. BP.BC.9/21.04.048/2012-13 dated 2 July 2012.

Notes forming part of the Financial Statements of India Branches for the year ended 31 March 2013

NOTES 18 – SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS *(Continued)*

5 Notes to accounts *(Continued)*

5.6 Statutory disclosures (Continued)

(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.

As at 31 March 2013

(Rs '000)

	Day 1	2 to 7 days	8 to 14 days	15-28 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	26,893,684	32,159,559	15,142,444	31,931,670	68,391,621	63,185,295	26,075,726	40,334,826	25,138,521	27,833,666	357,087,012
Investment Securities	115,058,086	22,880,490	19,117,254	44,160,147	41,996,301	42,282,538	53,343,006	34,192,117	8,107,815	70,649,255	451,787,009
Deposits	37,559,329	65,408,792	32,779,081	22,959,813	69,415,921	25,072,230	64,712,600	24,272,516	226,479,739	–	568,660,021
Borrowings	107,394,997	2,128,124	15,742,650	10,857,000	40,985,176	–	–	–	–	–	177,107,947
Foreign Currency Assets	9,651,377	10,228,056	1,525,721	9,572,987	28,655,224	42,856,998	12,496,175	29,837,751	24,829,617	22,803,656	192,457,562
Foreign Currency Liabilities	22,643,547	3,766,976	16,342,079	12,191,480	67,556,885	12,550,467	18,980,095	14,801,421	8,407,465	14,207,855	191,448,270

As at 31 March 2012

(Rs '000)

	Day 1	2 to 7 days	8 to 14 days	15-28 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	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

(ak) Overseas Assets, NPAs and Revenue

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

5.7 Employee benefits

a) Summary

(Rs '000)

	For the year ended 31 March 2013		For the year ended 31 March 2012	
	Gratuity	**Pension**	**Gratuity**	**Pension**
Defined benefit obligation	**822,454**	**2,584,242**	754,515	1,515,409
Fair value of plan assets	**837,291**	**1,662,440**	780,564	1,541,174
(Surplus) / Deficit	**(14,837)**	**921,802**	(26,049)	(25,765)
Effect of limit on plan surplus	–	–	–	–
Unrecognised Past service Costs	–	–	(24,957)	–
Net (surplus) / deficit	**(14,837)**	**921,802**	(51,006)	(25,765)

The pension liability includes a liability in respect of the unfunded plans of Rs. 351 million (previous year: Rs.345 million).

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

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NOTES 18 – SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS *(Continued)*

5 Notes to accounts *(Continued)*

5.7 Employee benefits (Continued)

b) Changes in present value of defined benefit obligations

(Rs '000)

	For the year ended 31 March 2013		For the year ended 31 March 2012	
	Gratuity	**Pension**	**Gratuity**	**Pension**
Opening balance	**754,515**	**1,515,409**	767,047	1,479,128
Current service cost	**74,503**	**47,726**	100,861	44,691
Interest cost	**60,368**	**128,944**	58,331	117,670
Past service cost	–	–	–	–
Benefits paid	**(121,255)**	**(81,600)**	(111,366)	(113,622)
Actuarial loss / (gain) recognised during the year	**54,323**	**973,763**	(60,358)	(12,458)
Closing Balance	**822,454**	**2,584,242**	754,515	1,515,409

c) Changes in the fair value of plan assets

(Rs '000)

	For the year ended 31 March 2013		For the year ended 31 March 2012	
	Gratuity	**Pension**	**Gratuity**	**Pension**
Opening balance	**780,564**	**1,541,174**	703,576	1,512,918
Expected return on plan assets	**61,275**	**121,502**	57,718	117,957
Contributions by the bank	**92,000**	–	147,164	–
Benefits paid	**(121,255)**	**(44,788)**	(111,366)	(76,893)
Actuarial gain / (loss) recognised during the year	**24,707**	**44,552**	(16,528)	(12,808)
Closing Balance	**837,291**	**1,662,440**	780,564	1,541,174
Actual return on plan assets	**85,982**	**166,054**	41,190	105,149

The bank expects to contribute Rs.73, 537 ('000) to the gratuity plan assets and Rs 36,703 ('000) to the pension assets for the annual period ending on 31 March 2014.

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

(Rs '000)

	For the year ended 31 March 2013		For the year ended 31 March 2012	
	Gratuity	**Pension**	**Gratuity**	**Pension**
Current service cost	**74,503**	**47,726**	100,861	44,691
Interest cost	**60,368**	**128,944**	58,331	117,670
Past Service Cost	**24,957**	–	35,350	–
Expected return on plan assets	**(61,275)**	**(121,502)**	(57,718)	(117,957)
Effect of limit on plan surplus	–	–	–	–
Net actuarial (gain) / loss recognised during the year	**29,616**	**929,211**	(43,830)	350
	128,169	**984,379**	92,994	44,754

Notes forming part of the Financial Statements of India Branches for the year ended 31 March 2013

NOTES 18 – SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS *(Continued)*

5 Notes to accounts *(Continued)*

5.7 Employee benefits (Continued)

e) Key assumptions

	For the year ended 31 March 2013		For the year ended 31 March 2012	
	Gratuity	**Pension**	**Gratuity**	**Pension**
Salary Escalation #	**7%-9%**	**7%-9%**	5%-7%	5%-7%
Discount rate	**8.1%**	**8.1% / 8.4%***	8.7%	8.7% / 8.9%
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.

* 8.4% for unfunded pension schemes.

f) Experience adjustments

(Rs '000)

	For the year ended 31 March				
	2013	**2012**	**2011**	**2010**	**2009**
Gratuity					
Defined benefit obligation	**822,454**	754,515	767,047	702,062	472,923
Fair value of plan assets	**837,291**	780,564	703,576	553,242	435,829
Unrecognised Past service Costs	**–**	(24,957)	(60,307)	(95,657)	–
Net (surplus) / deficit	**(14,837)**	(51,006)	3,164	53,163	37,094
Experience gain / (loss) on plan liabilities	**4,028**	11,449	18,066	65,112	–
Experience gain / (loss) on plan assets	**24,707**	(16,528)	(2,136)	(6,244)	–
Pension					
Defined benefit obligation	**2,584,242**	1,515,409	1,479,128	1,345,757	1,170,858
Fair value of plan assets	**1,662,440**	1,541,174	1,512,918	1,440,081	1,413,667
Effect of limit on plan surplus	**–**	–	–	–	258,653
Net (surplus) / deficit	**921,802**	(25,765)	(33,790)	(94,324)	15,844
Experience gain / (loss) on plan liabilities	**(132,442)**	(59,572)	(88,713)	34,685	–
Experience gain / (loss) on plan assets	**44,552**	(12,808)	(2,360)	(29,543)	–

g) Defined contribution plan

The Bank has recognised an amount of Rs. 253 million as an expense for the defined contribution plan towards provident fund contribution (previous year: Rs. 300 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 fulfill 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.

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.

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NOTES 18 – SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS *(Continued)*

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 utilized 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.

(Rs '000)

Business Segments	**Treasury**	**Retail Banking**	**Corporate Banking**	**Other Banking Business**	**Total**
Particulars			**For the year ended 31 March 2013**		
Segment Revenue	**16,460,518**	**25,121,965**	**43,356,229**	**2,635,266**	**87,573,978**
Segment Result	**14,954,102**	**3,243,172**	**18,040,756**	**(31,613)**	**36,206,417**
Unallocated expenses					**(1,914,755)**
Extra ordinary items					–
Profit before taxes					**34,291,662**
Income taxes					**(14,934,521)**
Net profit					**19,357,141**
			As at 31 March 2013		
Other information					
Segment assets	**618,254,876**	**103,283,845**	**318,618,719**	**9,839,985**	**1,049,997,425**
Unallocated assets					**11,707,045**
Total assets					**1,061,704,470**
Segment liabilities	**252,558,090**	**228,865,163**	**415,474,002**	**10,934,670**	**907,831,925**
Unallocated liabilities					**1,914,755**
Total net assets					**151,957,790**

(Rs '000)

Business Segments	**Treasury**	**Retail Banking**	**Corporate Banking**	**Other Banking Business**	**Total**
Particulars			**For the year ended 31 March 2012**		
Segment Revenue	18,365,889	24,055,134	38,398,461	3,813,881	84,633,375
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					
Unallocated liabilities	254,154,925	251,250,628	425,203,212	10,254,151	940,862,916
					1,842,955
Total net assets					149,536,907

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

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NOTES 18 – SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS *(Continued)*

5 Notes to accounts *(Continued)*

5.8 Segment Reporting (Continued)

h) Segment Description (Continued)

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 India.

c) Fellow subsidiaries

Fellow subsidiaries comprise companies, which have a common ultimate holding company, HSBC Holdings plc. These are as follows:

HSBC Bank plc, Hang Seng Bank Limited, HSBC Bank Brasil S.A – BancoMultiplo, HSBC Global Resourcing (UK) Limited, HSBC Private Equity Management (Mauritius) Limited (Liaison office), 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 Kazakhistan JSC, HSBC Bank International Limited, HSBC France, HSBC Bank USA, N.A, , HSBC Bank Canada, HSBC Bank Argentina, Saudi British Bank, HSBC Bank (China) Company Limited, HSBC Private Bank (UK) Ltd, HSBC Iris Investment (Mauritius) Ltd, HSBC Software Development (Guangdong) Ltd, HSBC Bank Oman SAOG, HSBC Bank A.S. Turkey, HSBC Bank Polska S.A.

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 Software Development (India) Private Limited, HSBC Global Shared services (India) Private Limited, , HSBC InvestDirect (India) Limited, HSBC InvestDirect Securities (India) Ltd, 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, Canara HSBC Oriental Insurance Company Limited ('CHOICE').

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 (i.e. key management personnel and subsidiary):

(Rs '000)

	Parent		Fellow Subsidiaries	
	31 March 2013	**31 March 2012**	**31 March 2013**	**31 March 2012**
Interest Paid	–	–	**840,733**	748,834
Interest Received	–	–	**622**	5,449
Rendering of Services	–	–	**336,214**	382,382
Receiving of Services	**1,914,755**	1,842,955	**1,545,008**	1,890,294

(Rs '000)

	Branch offices	
	31 March 2013	**31 March 2012**
Interest Paid	**329,450**	180,653
Interest Received	**4,659**	5,215
Rendering of Services	**90,361**	37,599
Receiving of Services	**3,531,899**	2,749,890

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NOTES 18 – SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS *(Continued)*

5 Notes to accounts *(Continued)*

5.9 Related parties (Continued)

e) Key management personnel and subsidiaries

Balances with related parties are as follows:

(Rs '000)

Parent	As at 31 March 2013	Maximum[1] during the year 2013	As at 31 March 2012	Maximum during the year 2012
Borrowings	–	–	–	–
Deposit	–	–	–	–
Placement of deposits	–	–	–	–
Advances	–	–	–	–
Nostro balances	–	–	–	–
Other liabilities	**1,914,755**	**1,914,755**	1,842,955	1,842,955
Non Funded Commitments	–	–	–	–

(Rs '000)

Branch offices	As at 31 March 2013	Maximum[1] during the year 2013	As at 31 March 2012	Maximum during the year 2012
Borrowings	**69,712,949**	**82,480,287**	46,126,837	69,404,789
Deposit / other liability	**1,372,345**	**2,947,315**	1,186,026	2,506,422
Placement of deposits / other asset	**9,593,917**	**19,663,355**	29,075	15,962,680
Advances	–	–	–	–
Nostro balances	**1,886,045**	**2,082,978**	34,026	260,060
Positive MTMs	**5,983,724**	**12,229,883**	8,825,815	15,032,393
Negative MTMs	**12,771,206**	**14,057,722**	11,108,441	12,794,601
Derivative notionals	**376,212,813**	**485,665,566**	398,889,141	410,301,121
Non Funded Commitments	**6,027,900**	**6,946,725**	2,227,240	2,275,380

(Rs '000)

Fellow Subsidiaries	As at 31 March 2013	Maximum[1] during the year 2013	As at 31 March 2012	Maximum during the year 2012
Borrowings	–	–	7,631,521	19,392,059
Deposit / other liability	**17,348,374**	**36,464,074**	21,473,723	52,104,197
Placement of deposits / other asset	**17,647**	**1,447,000**	25,496,972	25,745,980
Advances	–	–	–	–
Nostro balances	**7,548,535**	**13,159,309**	11,728,795	12,155,550
Positive MTMs	**19,585,517**	**39,507,868**	31,183,415	42,951,638
Negative MTMs	**25,999,181**	**36,924,691**	26,999,498	32,617,848
Derivative notionals	**816,985,690**	**1,036,261,185**	955,278,877	1,091,001,952
Investments	**100**	**100**	100	100
Non Funded Commitments	**19,674,284**	**30,002,165**	1,221,426	1,443,626

[1] Disclosure of maximum balances has been enhanced and presented based on comparison of the total outstanding balances at each month end during the financial year ended 31 March 2013. The maximum balances during the year ended 31 March 2012 are based on comparison of total outstanding balances at each quarter end.

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NOTES 18 – SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS *(Continued)*

5 Notes to accounts (Continued)

5.9 Related parties (Continued)

e) 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. 4,659 (previous year: Rs. 4,002), Hang Seng Bank Limited Rs. 609 (previous year: Rs. 3,825).

Interest paid:

Payment of interest to The Hongkong and Shanghai Banking Corporation Limited, Hongkong Branch Rs. 328,363 (previous year: Rs. 180,438), HSBC Software Development (India) Private Limited Rs. 412,973 (previous year: Rs. 261,552) and HSBC Electronic Data Processing India Private Limited Rs. 307,488 (previous year: Rs. 354,364).

Rendering of services:

Income from HSBC InvestDirect Securities (India) Limited Rs. 112,240 (previous year: Rs.42,399), HSBC Securities and Capital Markets (India) Private Limited Rs. 77,865 (previous year: Rs. 77,540) and The Hongkong and Shanghai Banking Corporation Limited, Hongkong Branch Rs. 82,533 (previous year: Rs.13,275).

Receiving of services:

Expenses for receiving of services from The Hongkong and Shanghai Banking Corporation, Hongkong Branch Rs. 3,528,998 (previous year: Rs. 2,674,227), HSBC Electronic Data Processing India Private Limited Rs. 1,178,503 (previous year: Rs. 1,351,093) and The Hongkong and Shanghai Banking Corporation Limited, Hongkong (Head Office) Rs. 1,914,755 (previous year: Rs.1,842,955) .

Borrowings:

The Hongkong and Shanghai Banking Corporation, Hong Kong branch Rs. 69,712,949 (previous year: Rs. 46,126,837).

Placement of deposits / other asset:

The Hongkong and Shanghai Banking Corporation, Hongkong branch Rs. 9,593,764 (previous year: Rs. Nil).

Nostros:

HSBC Bank, USA, N.A– Rs. 7,080,078 (previous year: Rs. 11,653,590) and The Hongkong and Shanghai Banking Corporation, Hongkong branch Rs. 1,314,513 (previous year: Rs. 18,847)

Deposits / other liability:

HSBC Software Development Rs. 9,324,798 (previous year: Rs. 9,130,943) and HSBC Electronic Data Processing (India) Private Limited Rs. 4,378,037 (previous year: Rs. 7,467,494).

Non Funded Commitments:

HSBC Bank Australia Limited Rs. 8,903,172 (previous year: Rs. 214,064), HSBC France Rs. 2,554,649 (previous year: Rs. 2,758,272) and HBAP South Korea branch Rs. 3,633,983 (previous year: Rs. 3,574,176).

Derivative Notionals:

HSBC Markets (Asia) Ltd Rs. 232,338,714 (previous year: Rs. 303,857,094), HSBC HongKong branch Rs. 122,661,707 (previous year: Rs. 94,532,674), HSBC Bank Plc Rs. 593,050,247 (previous year: Rs. 663,669,360) and HSBC Bank USA, N.A Rs. 153,847,164 (previous year: Rs. 193,269,857).

Positive MTM:

HSBC Markets (Asia) Ltd Rs. 4,842,452 (previous year: Rs. 8,172,782), HSBC Bank Plc Rs. 15,907,624 (previous year: Rs. 25,557,772) and HSBC Bank USA, N.A Rs. 2,967,785 (previous year: Rs. 2,846,152).

Negative MTM:

HSBC Markets (Asia) Ltd Rs. 10,969,764 (previous year: Rs. 9,565,113), HSBC Bank Plc Rs. 17,730,181 (previous year: Rs. 18,444,358) and HSBC Bank USA, N.A Rs. 7,608,634 (previous year: Rs. 7,690,020).

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NOTES 18 – SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS *(Continued)*

5 Notes to accounts *(Continued)*

5.10 Deferred taxes

There was a deferred tax credit Rs. 355 million (previous year deferred tax charge: Rs. 855 million) for the year ended 31 March 2013 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 2013	As at 31 March 2012
Provision for doubtful advances	**4,628,712**	4,319,575
VRS & severance	**7,663**	13,626
Bonus, leave encashment	**409,645**	364,214
Others	**1,234,259**	1,155,883
Deferred tax assets	**6,280,279**	5,853,298
Deferred tax liability (for specific reserve)	**(414,428)**	(342,926)
Net Deferred Tax Asset	**5,865,851**	5,510,372

5.11 Operating Leases

Total lease rental of Rs. 970 million (previous year: Rs. 1,015 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 2013	As at 31 March 2012
Not later than one year	**226,276**	168,718
Later than one year and no later than five years	**233,738**	288,920
Later than five years	**–**	–
Total	**460,014**	457,638

5.12 Provisions and contingencies

Details of provisions for reward points on Credit cards and Debit cards and other provisions are set out below:

(Rs '000)

	For year ended 31 March 2013		For year ended 31 March 2012	
	Reward points	Other provisions	Reward points	Other provisions
Opening balance at the beginning of the period	**184,215**	**335,822**	162,185	646,098
Add: Provision made during the period *(Note 5.6.c)*	**158,775**	**71,632**	127,610	107,871
Less: Utilisation, write back of excess provisions during the period	**(115,692)**	**(206,778)**	(105,580)	(418,147)
Closing balance at the end of the period	**227,298**	**200,676**	184,215	335,822

Note: Other provisions represent provision made for legal cases, overdue receivables, impaired assets and onerous contracts.

Description of contingent liabilities (included in schedule 12)

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.

The Hongkong and Shanghai Banking Corporation Limited – India Branches
(Incorporated in Hong Kong SAR with limited liability)

Notes forming part of the Financial Statements of India Branches for the year ended 31 March 2013

NOTES 18 – SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS *(Continued)*

5 Notes to accounts *(Continued)*

5.12 Provisions and contingencies (continued)

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 fulfill its financial or performance obligations.

Standby letters of credit and Buyers credit facility have been reclassified from "Acceptances, endorsements and other obligations" and reported under "Guarantees given on behalf of constituents" to more appropriately reflect the nature of the facility.

Other items for which the Bank is contingently liable

These include non-unconditionally cancellable undrawn commitments, irrevocable payment commitments, capital commitments and credit enhancements given in relation to securitization 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 2013 and 31 March 2012.

5.14 Unsecured Advances

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

5.15 Remuneration policy

In accordance with the requirements of the RBI Circular No. DBOD.NO.BC. 72/29.67/001/2011-12 dated 13 January 2012, the Head Office of the Bank has submitted a declaration to RBI that the Bank's compensation policies including that of CEO's, is in conformity with the Financial Stability Board principles and standards.

5.16 Drawdown on reserves

The Bank has not drawn down on reserves during the year ended 31 March 2013 and 31 March 2012.

5.17 Disclosure of complaints

Customer Complaints

	For the year ended 31 March 2013	**For the year ended 31 March 2012**
No. of complaints pending at the beginning of the year	**143**	308
No. of complaints received during the year	**11,868**	24,385
No. of complaints redressed during the year	**11,785**	24,550
No. of complaints pending at the end of the year	**226**	143

Awards Passed By Banking Ombudsman

	For the year ended 31 March 2013	**For the year ended 31 March 2012**
No. of unimplemented awards at the beginning of the year	**–**	–
No. of awards passed by the Banking Ombudsman during the year	**2**	–
No of awards lapsed during the year	**2**	–
No. of unimplemented awards at the end of the year	**–**	–

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Notes forming part of the Financial Statements of India Branches for the year ended 31 March 2013

NOTES 18 – SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS *(Continued)*

5 Notes to accounts *(Continued)*

5.18 Prior period comparatives

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

The presentation of certain items of income and expense for year ended 31 March 2013 has been enhanced and accordingly previous year figures have been regrouped and reclassified to facilitate comparability. These are as follows (all amounts are Indian Rupees in thousands):

- Profit or loss on derivative transactions (loss of Rs. 10,586,204) has been reclassified from Miscellaneous income - Schedule 14 (V) to "Profit on exchange transactions" – Schedule 14 (IV).
- Interest income / expenses on reverse repo / repo which were reported hitherto on a net basis in schedule 13 (II) has been reported under "Interest on balances with Reserve Bank of India and other inter-bank funds" in schedule 13 (III) and "Interest on Reserve Bank of India / inter-bank borrowings" in schedule 15 (II) as may be applicable. The effect of this change is not material to the financial statements.
- Staff welfare expenses have been reclassified from "Other expenditure" in schedule 16 (XI) to "Payments to and provisions for employees" in schedule 16 (I). The effect of this change is not material to the financial statements.

The above regrouping / reclassification do not impact profit reported for the financial year ended 31 March 2012.

5.19 Business acquisition

The Bank's agreement to acquire the RBS Group plc's retail and commercial businesses in India expired on 30 November 2012 without all conditions required to close the transaction being satisfied.

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

For The Hongkong and Shanghai Banking Corporation Limited

Sd/-
N Sampath Ganesh
Partner
Membership No: 042554

Sd/-
Richard Collie
Chief Financial Officer

Sd/-
Stuart P Milne
Group General Manager & Chief Executive Officer, India

Mumbai
21 June 2013

Mumbai
21 June 2013

HSBC

The Hongkong and Shanghai Banking Corporation Limited – India Branches
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Basel II – Pillar 3 disclosures of India Branches for the year ended 31 March 2013

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 Bank holds minority interests (2.07% shareholding) in a group entity HSBC Professional Services (India) Private Limited which is neither consolidated nor is capital deducted. The investment in this company is 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 interest 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 2013	As at 31 March 2012
Capital	**44,991,660**	44,991,660
Reserves	**83,085,063**	74,937,775
Less: Deductions from Tier I Capital	**(7,271,808)**	(5,569,169)
Charge for Credit enhancement on Securitisation deal	**(35,614)**	(34,865)
Intangible Assets (Deferred Tax Asset)	**(5,865,852)**	(5,510,372)
Investment in subsidiaries in India	**(100)**	(100)
Debit Value Adjustments (DVA) (note 1)	**(1,370,242)**	–
Charge on account of Failed/Defaulted transactions	–	(23,832)
Total Tier I Capital	**120,804,915**	114,360,266

note 1: In line with the final guidelines on 'Implementation of Basel III Capital Regulations in India' dated 2May2012 the Bank has deducted DVA from Tier 1 capital (Refer para 5.6 (aa) of the financial statements).

(ii) Tier 2 capital (Audited)

(Rs '000)

	As at 31 March 2013	As at 31 March 2012
Property revaluation reserves	**3,395,054**	3,107,026
General Loss Reserves and Investment Reserves	**7,411,676**	6,273,580
Less: Deductions from Tier II Capital	**(35,714)**	(34,965)
Charge for Credit enhancement on Securitisation deal	**(35,614)**	(34,865)
Investment in subsidiaries in India	**(100)**	(100)
Total Tier II Capital	**10,771,016**	9,345,641

(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 2013.

(v) Other deductions from capital

There are no other deductions from capital.

(vi) Total eligible capital (Audited)

The total eligible capital is Rs 131,575,931 ('000) previous year (Rs. 123,705,907 ('000)).

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The Hongkong and Shanghai Banking Corporation Limited – India Branches
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Basel II – Pillar 3 disclosures of India Branches for the year ended 31 March 2013 (*Continued*)

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 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 III. The Basel III capital rules would be effective from 1April2013 except for those relating to Credit Valuation Adjustment (CVA) risk capital charge for over the counter derivatives. These guidelines would become effective from 1January2014.

The Bank continues to monitor further developments and believes that its current robust capital adequacy position should enable us to adapt to the Basel III framework.

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

(i) Capital requirements for Credit risk, Market Risk and Operational Risk

(Rs '000)

		As at 31 March 2013	As at 31 March 2012
I.	**Capital required for Credit Risk**	**50,451,863**	49,801,501
	– For portfolios subject to Standardised approach	**50,451,863**	49,801,501
II.	**Capital required for Market Risk (Standard Duration Approach)**	**10,592,069**	11,155,228
	– Interest rate risk	**9,778,262**	10,999,486
	– Foreign exchange risk	**405,000**	99,000
	– Equity risk	**75,251**	56,742
	– Securitisation exposure	**333,556**	–
III.	**Capital required for Operational Risk (Basic Indicator Approach)**	**8,217,768**	8,438,792
	Total capital requirement (I + II + III)	**69,261,700**	69,395,721
	Total capital funds of the Bank	**131,575,931**	123,705,909
	Total risk weighted assets	**769,574,433**	771,063,570
	Consolidated total capital ratio	**17.10%**	16.04%
	Consolidated Tier I capital ratio	**15.70%**	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 Reserve Bank of India's (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.
- Establish and monitor 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.

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Basel II – Pillar 3 disclosures of India Branches for the year ended 31 March 2013 (*Continued*)

4 Credit risk: ***(Continued)***

a. General ***(Continued)***

Strategy and Processes ***(Continued)***

- 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. 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 centralized 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.

Domestic ECAIs for external ratings of Indian Corporates:

a) Credit Analysis and Research Limited;
b) CRISIL Limited;
c) India Ratings and Research Private Limited;
d) ICRA Limited; and
e) Brickwork Ratings India Private Limited.

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Basel II – Pillar 3 disclosures of India Branches for the year ended 31 March 2013 (*Continued*)

4 **Credit risk:** ***(Continued)***

b. Disclosures for portfolios under the standardised approach ***(Continued)***

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 RBI's Prudential Guidelines on Capital Adequacy and Market Discipline issued on 2July2012.

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 bank 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%

International ECAIs for external ratings of Foreign Banks, Foreign Sovereigns, Foreign Public Sector Entities and Non-Resident Corporates:

a) Fitch;

b) Moodys; and

c) Standard & Poor's (S & P)

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 RBI 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%

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Basel II – Pillar 3 disclosures of India Branches for the year ended 31 March 2013 (*Continued*)

4 **Credit risk:** ***(Continued)***

b. Disclosures for portfolios under the standardised approach *(Continued)*

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. The maximum LVR offered to customers was capped at 80% of the mortgaged property since 1April2011, except if approved under a special lending authority.

The valuation of property is initiated through a bank-empanelled valuer who is an expert on the subject matter. Additionally, for loans exceeding INR 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 a non-performing asset (NPA), a fresh valuation is initiated through the bank-empanelled valuer and the provisions applicable are calculated accordingly.

Main Types of Collateral 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, ready possession 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.

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Basel II – Pillar 3 disclosures of India Branches for the year ended 31 March 2013 (*Continued*)

4 Credit risk: ***(Continued)***

b. Disclosures for portfolios under the standardised approach ***(Continued)***

The total exposure (including non-funded post CCF) that is covered by eligible financial collateral, after the application of haircuts is Rs. 55,671,493 (‘000) (previous year Rs. 59,400,092 (‘000)).

(i) Total gross credit risk exposures

(Rs ‘000)

	As at 31 March 2013	As at 31 March 2012
Fund based Note [1]	**496,590,420**	518,733,716
Non fund based Note [2]	**533,666,546**	613,473,880
Total	**1,030,256,966**	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 2013
	Fund based	**Non fund based**	**Total**
Overseas	–	–	–
Domestic	**496,590,420**	**533,666,546**	**1,030,256,966**
Total	**496,590,420**	**533,666,546**	**1,030,256,966**

(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

(iii) Industry type distribution of exposures as at 31March2013

(Rs ‘000)

Industry	**Fund based**	**Non Fund based**	**Total**
Mining and Quarrying	1,091,332	1,666,402	2,757,734
Food Processing	6,385,811	1,185,044	7,570,855
Beverages and Tobacco	1,195,150	62,267	1,257,417
Textiles	7,017,706	7,207,705	14,225,411
Leather and Leather products	209,138	26,667	235,805
Wood and Wood Products	–	–	–
Paper and Paper Products	4,623,982	3,095,014	7,718,996
Petroleum	174,367	20,301,877	20,476,244
Chemicals and Chemical Products	41,627,257	47,014,842	88,642,099
Rubber, Plastic and their Products	3,638,567	229,957	3,868,524
Glass & Glassware	3,042,553	1,633,262	4,675,815
Cement and Cement Products	2,501,508	1,995,448	4,496,956
Basic Metal and Metal Products	5,809,952	18,948,214	24,758,166
All Engineering	18,658,200	34,941,850	53,600,050
Vehicles and Transport Equipments	14,888,729	9,955,356	24,844,085
Gems and Jewellery	388,868	3,500	392,368
Construction	22,290,673	5,382,524	27,673,197
Infrastructure	49,787,377	36,206,437	85,993,814
NBFCs and trading	21,178,256	5,773,924	26,952,180
Banking and finance	97,587,216	185,404,773	282,991,989
Computer Software	4,948,978	1,946,429	6,895,407
Other Industries	117,379,415	147,816,564	265,195,979
Retail	72,165,385	2,868,490	75,033,875
Total	**496,590,420**	**533,666,546**	**1,030,256,966**

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Basel II – Pillar 3 disclosures of India Branches for the year ended 31 March 2013 (*Continued*)

4 Credit risk: ***(Continued)***

b. Disclosures for portfolios under the standardised approach ***(Continued)***

(iv) Residual contractual maturity breakdown of total assets

(Rs'000)

	As at 31st March 2013	As at 31st March 2012
1 day	**182,075,082**	206,919,579
2 to 7 days	**67,210,185**	23,468,169
8 to 14 days	**34,902,246**	28,749,916
15 to 28 days	**82,799,770**	60,823,364
29 days & upto 3 months	**142,103,759**	183,785,972
Over 3 months and upto 6 months	**126,665,709**	129,101,743
Over 6 months and upto 1 year	**91,792,411**	138,229,400
Over 1 year and upto 3 years	**110,566,499**	140,502,759
Over 3 years and upto 5 years	**77,039,956**	75,377,050
Over 5 years	**146,548,851**	105,284,823
Total	**1,061,704,468**	**1,092,242,775**

(v) Amount of NPAs (Gross)

(Rs'000)

	As at 31 March 2013	As at 31 March 2012
Substandard	**2,064,562**	3,224,301
Doubtful 1	**1,153,174**	1,714,595
Doubtful 2	**1,290,459**	1,444,608
Doubtful 3	**1,160,753**	347,259
Loss	**739,375**	470,341
Total (audited)	**6,408,323**	**7,201,104**

(vi) Net NPA (audited)

The net NPA is Rs 1,190,242 ('000) (previous year Rs. 2,203,435('000)).

(vii) NPA ratios

	As at 31 March 2013	As at 31 March 2012
Gross NPAs to gross advances	**1.76%**	2.00%
Net NPAs to net advances (audited)	**0.33%**	0.62%

(viii) Movement of NPAs (audited)

(Rs'000)

	As at 31 March 2013		
	Gross NPA's	**Provision**	**Net NPA**
Opening balance as at 1 April 2012	**7,201,104**	**4,997,669**	**2,203,435**
Additions during the period	**1,929,398**	**1,300,943**	**628,455**
Reductions during the period	**(2,722,179)**	**(1,080,459)**	**(1,641,720)**
Closing balance as at 31 March 2013	**6,408,323**	**5,218,153**	**1,190,170**

(Rs'000)

	As at 31 March 2012		
	Gross NPA's	**Provision**	**Net NPA**
Opening balance as at 1 April 2011	9,955,304	7,467,872	2,487,432
Additions during the period	4,722,733	2,406,531	2,316,229
Reductions during the period	(7,476,933)	(4,876,734)	(2,600,227)
Closing balance as at 31 March 2012	7,201,104	4,997,669	2,203,434

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Basel II – Pillar 3 disclosures of India Branches for the year ended 31 March 2013 (*Continued*)

4 Credit risk: ***(Continued)***

b. Disclosures for portfolios under the standardised approach ***(Continued)***

(ix) Non performing investments (audited)

Non performing investments as at 31 March 2013 are Rs. 6 (previous year Rs.5).

This represents 3 equity share investments (previous year Rs.3) and 3 preference share investments (previous year Rs.2) which have each been written down to Re. 1.

(x) Movement of provisions for depreciation on investments (audited)

(Rs'000)

	For the year ended 31 March 2013	For the year ended 31 March 2012
Opening balance	**3,518,087**	5,139,418
Provisions during the year	**–**	–
Write offs during the year	**–**	–
Write back of excess provisions during the year	**(2,838,308)**	(1,621,331)
MTM on hedging swaps reclassified as trading swaps as at 31 March 2013	**417,949**	–
Closing balance	**1,097,728**	3,518,087

(xi) Exposure under various risk buckets (post Credit Risk Mitigants)

(Rs'000)

	As at 31 March 2013	As at 31 March 2012
Below 100% risk weight	**667,009,876**	791,084,110
100% risk weight	**436,558,268**	282,713,721
Above 100% risk weight	**54,177,458**	46,092,559
Deductions*	**(7,307,521)**	(5,604,133)
Total	**1,084,038,081**	1,114,286,257

* Deduction represents amounts deducted from Capital Funds

c. Securitisation: disclosure for standardised approach

The Bank acts as originator, servicer and investor in securitisation transactions. Our strategy is to use securitisations to diversify our sources of funding asset origination, capital efficiency, managing liquidity and meet the priority sector lending (PSL) requirements. The Bank also undertakes 'purchase' transactions through the direct assignment route.

The Bank participates in securitisation transactions in any or all of the following roles:

- Originator: The Bank uses Special Purpose Vehicle ("SPV") to securitise customer loans and advances that we have originated, in order to diversify our sources of funding for asset origination and for capital efficiency purposes. In such cases, we transfer the loans and advances to the SPVs for cash, and the SPVs issue debt securities to investors to fund the cash purchases. Credit enhancements to the underlying assets may be used to obtain investment grade ratings on the senior debt issued by the SPVs.
- Servicer: For sold assets, the Bank undertakes the activity of collections and other servicing activities such as managing collections and monthly payouts to investors/assignee with respect to the underlying assets.
- Investor: The Bank invests in Pass Through Certificates (PTCs) for yield and priority sector lending opportunities. We have exposure to third-party securitisations which are reported as investments. These securitisation positions are managed by a dedicated team that uses a combination of market standard systems and third party data providers to monitor performance data and manage market and credit risks.

Valuation of securitisation positions: The investments of the Bank in PTCs have been marked to market on the basis of the Base Yield Curve and the applicable spreads as per the spread matrix relative to the Weighted Average Maturity of the paper as notified by Fixed Income Money Market and Derivative Association of India (FIMMDA).

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Basel II – Pillar 3 disclosures of India Branches for the year ended 31 March 2013 (*Continued*)

4 Credit risk: ***(Continued)***

c. Securitisation: disclosure for standardised approach ***(Continued)***

Securitisation accounting treatment: The accounting treatment applied is as below:

- Originator: Securitised assets are derecognized upon sale if the true sale criteria are fully met and 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/ disclosures is made in accordance with AS 29 – 'Provisions, contingent liability and contingent assets. Gains on securitisation, being the excess of consideration received over the book value of the loans and provisions against expected costs including servicing costs and the expected delinquencies are amortised over the life of the securities issued by the SPV. Losses are recognized immediately. Sale and transfer that do not meet the above criteria are accounted for as secured borrowings.
- Servicer: In case the Bank acts as servicer of the securitisation deal the fees charged for servicing the loans would be recognized on accrual basis.
- Investor: The investment in PTCs are accounted for as Available for Sale (AFS) investments and valued as per the note above. The loan assignment deals are classified as advances.

Securitisation regulatory treatment:

- Originator: In case the loan is derecognised from the books, no capital needs to be maintained by the Bank. However the Bank is required to make appropriate reduction from capital for credit enhancements provided in line with the RBI guidelines.
- Servicer: No impact on capital.
- Investor: The Bank uses the issue specific rating assigned by eligible external credit rating agencies to compute the RWAs of the investment in the PTCs.

ECAI's 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) India Ratings and Research Private Limited; and
d) ICRA Limited.

(i) Details of securitisation of standard assets (audited)

(Rs'000)

	As of 31March 2013	
	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)	–	–
Gain on sale on account of securitisation during the year(Rs '000)	–	–
Gain on securitisation recognised in Income Statement (Rs '000)	**1,762**	–
The unamortised gain as at 31 March 2013 (Rs '000)	**2,219**	–
Outstanding value of services provided by way of Credit Enhancement (Rs '000)	**40,025**	–

(Rs'000)

	As of 31March 2012	
	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)	–	–
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	–

HSBC

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Basel II – Pillar 3 disclosures of India Branches for the year ended 31 March 2013 (*Continued*)

4 Credit risk: ***(Continued)***

c. Securitisation: disclosure for standardised approach ***(Continued)***

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 (previous year NIL).

(iii) Loss recognised on securitisation of assets

The Bank has not recognised any losses during the current year for any securitisation deal (previous year NIL).

(iv) Securitisation exposures retained or purchased

The Bank has made investments in PTCs of Rs. 18,790,541 ('000) as at 31March2013 (previous year – Nil). The portfolio consists of Commercial Vehicle Loans, Light Commercial Vehicles etc. which are used for business purposes. These attract a risk weight of 20% since they are AAA rated instruments.

5 Market risk in trading book

The objective of the Group'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. 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 exposure 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.

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 Foreign Exchange).

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 in Banking book, 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.

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Basel II – Pillar 3 disclosures of India Branches for the year ended 31 March 2013 (*Continued*)

5 Market risk in trading book *(Continued)*

Scope and nature of risk measurement, reporting and monitoring *(Continued)*

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 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)

Standardised Duration Approach	As at 31 March 2013	As at 31 March 2012
Interest rate risk	**9,778,262**	10,999,486
Foreign exchange risk	**405,000**	99,000
Equity risk	**75,251**	56,742
Securitisation exposure	**333,556**	–
Capital requirements for market risk	**10,592,069**	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 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 authorized by the RMC.

The Bank has 'Three lines of defence' model in place which provides a format within which to structure and demonstrate roles, responsibilities and accountabilities for decision making, risk and control to achieve effective governance, risk management and assurance. The first line of defence ensures all key risks within their operations are identified, mitigated and monitored by appropriate internal controls within an overall control environment. Every employee is responsible for the risks that are a part of their day to day jobs. The second line of defence consists of the Global Functions such as Global Risk, Finance and HR who are responsible for providing assurance, challenge and oversight of the activities conducted by the first line. The third line of defence covers the role of Internal Audit, who provides independent assurance over the first and second lines of defence.

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.

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Basel II – Pillar 3 disclosures of India Branches for the year ended 31 March 2013 (*Continued*)

6 Operational risk *(Continued)*

Scope and Nature of Risk reporting, monitoring and mitigation *(Continued)*

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 is monitored as part of the Bank's Internal Capital Adequacy Assessment Process and capital maintained, if required, based on this assessment.

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.

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.

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Basel II – Pillar 3 disclosures of India Branches for the year ended 31 March 2013 (*Continued*)

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

Scope and nature of Risk reporting, measurement, monitoring and mitigation ***(Continued)***

(i) *Sensitivity to upward shocks*

(Rs million)

IRRBB: Sensitivity to upwards 100 bps movement in interest rates by currency	**As at 31 March 2013**	As at 31 March 2012
INR	**(1,710)**	(1,210)
USD	**(49)**	(70)
EUR	**1**	1
Other FCY	**(4)**	(30)
Total	**(1,762)**	(1,309)

(ii) *Sensitivity to downward shocks*

(Rs million)

IRRBB: Sensitivity to downwards 100 bps movement in interest rates by currency	**As at 31 March 2013**	As at 31 March 2012
INR	**(2,240)**	(650)
USD	**(90)**	(40)
EUR	**–**	(1)
Other FCY	**(20)**	(50)
Total	**(2,350)**	(741)

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

(Rs million)

	Commercial Banking	**ALCO Pool**	**Treasury**	**Sub-total**	**Intersegment Elimination**	**As at 31 March 2013**
+100 Bps	**1,879**	**381**	**(303)**	**1,957**	**(888)**	**1,069**
-100 Bps	**(1,914)**	**(346)**	**227**	**(2,033)**	**696**	**(1,338)**

(Rs million)

	Commercial Banking	ALCO Pool	Treasury	Sub-total	Intersegment Elimination	As at 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**

(Rs million)

	Commercial Banking	**ALCO Pool**	**Treasury**	**Sub-total**	**Intersegment Elimination**	**As at 31 March 2013**
+100 Bps	**1,141**	**207**	**(131)**	**1,217**	**(578)**	**639**
-100 Bps	**(1,052)**	**(172)**	**24**	**(1,200)**	**488**	**(712)**

(Rs million)

	Commercial Banking	ALCO Pool	Treasury	Sub-total	Intersegment Elimination	As at 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 twelve months.