



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 and Shanghai Banking Corporation Limited – India Branches ('the Bank'), which comprise the Balance Sheet as at 31 March 2014, the Profit and Loss Account and the Cash Flow Statement for the year then ended, 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, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. 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 financial statements 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 2014;
 - (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 and the Profit and Loss Account have been drawn up in accordance with the provisions of Section 29 of the Banking Regulation Act, 1949 read with 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; and
 - (c) during the course of our audit we have visited 7 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**

(Incorporated in Hong Kong SAR with limited liability)

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, the Profit and Loss Account and the Cash Flow Statement 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, returns are not necessary to be 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; and
 - (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 **BSR & Co. LLP**
Chartered Accountants
Firm's Registration No: 101248W

Sd/-
Akeel Master
Partner
Membership No: 046768

Mumbai
20 June 2014



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			Profit and Loss Account for India Branches for the year ended 31 March				
(Currency: Indian rupees in thousands)			(Currency: Indian rupees in thousands)				
<i>Schedules</i>	2014	2013	<i>Schedules</i>	2014	2013		
CAPITAL AND LIABILITIES			INCOME				
Capital	1	44,991,660	44,991,660	Interest earned	13	74,659,639	70,331,775
Reserves and surplus	2	117,466,261	106,966,131	Other income	14	15,208,859	17,242,203
Deposits	3	717,275,068	568,660,021	TOTAL		89,868,498	87,573,978
Borrowings	4	231,530,726	177,107,947	EXPENDITURE			
Other liabilities and provisions	5	207,541,296	163,978,711	Interest expended	15	36,152,039	30,006,312
TOTAL		1,318,805,011	1,061,704,470	Operating expenses	16	26,376,671	24,646,490
ASSETS				Provisions and contingencies	17	12,436,638	13,564,035
Cash and balances with Reserve Bank of India	6	37,270,612	49,636,709	TOTAL		74,965,348	68,216,837
Balances with banks and money at call and short notice	7	115,398,789	41,854,007	Net profit for the year		14,903,150	19,357,141
Investments	8	565,673,814	451,787,009	Profit brought forward		13,141,734	20,884,318
Advances	9	402,179,487	357,087,012	TOTAL		28,044,884	40,241,459
Fixed assets	10	9,628,512	8,981,388	APPROPRIATIONS			
Other assets	11	188,653,797	152,358,345	Transfer to statutory reserve		3,725,788	4,839,285
TOTAL		1,318,805,011	1,061,704,470	Transfer to Remittable Surplus retained in India for Capital to Risk-weighted Assets Ratio (CRAR) requirements		8,302,449	3,308,000
Contingent liabilities	12	9,379,743,458	9,731,036,751	Transfer to investment reserve		185,253	1,234,154
Bills for collection		166,038,565	142,147,333	Transfer to specific reserve		172,971	141,968
Significant accounting policies and notes to accounts	18			Profit Remitted to Head Office		4,839,285	17,576,318
				Balance carried over to balance sheet		10,819,138	13,141,734
				TOTAL		28,044,884	40,241,459
				Significant accounting policies and notes to accounts	18		
Schedules referred to herein form an integral part of the Balance Sheet.			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. LLP**
Chartered Accountants
Firm's Registration No: 101248W

Sd/-
Akeel Master
Partner
Membership No: 046768

Sd/-
Sheryl Slater
Chief Financial Officer

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

Mumbai
20 June 2014

For **The Hongkong and Shanghai Banking Corporation Limited**



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

Cash flow statement for India Branches for the year ended 31 March

(Currency: Indian rupees in thousands)

	2014	2013
Cash flow from operating activities		
Net profit before taxes	26,861,190	34,291,662
Adjustments for:		
Depreciation on fixed assets	348,585	365,863
Writeback for depreciation on investments	(435,327)	(2,838,309)
Provision for advances	752,457	1,237,416
Other provisions	161,468	230,407
Loss/(profit) on sale of fixed assets	3,318	(5,700)
	<u>27,691,691</u>	<u>33,281,339</u>
Adjustments for:		
Increase in investments (excluding held to maturity securities)	(113,451,478)	(45,710,212)
Increase in advances	(45,844,932)	(3,201,606)
Increase in borrowings	54,422,779	72,333,218
Increase/(decrease) in deposits	148,615,047	(45,573,192)
(Increase)/decrease in other assets	(35,140,268)	57,903,652
Increase/(decrease) in other liabilities and provisions	43,397,593	(59,949,624)
	<u>51,998,741</u>	<u>(24,197,764)</u>
Direct taxes paid	(13,113,224)	(15,210,000)
Net cash from/(used in) operating activities	<i>(A)</i> <u>66,577,208</u>	<u>(6,126,425)</u>
Cash flow from investing activities		
Purchase of fixed assets	(560,637)	(310,563)
Proceeds from sale of fixed assets	1,399	29,550
Net cash used in investing activities	<i>(B)</i> <u>(559,238)</u>	<u>(281,013)</u>
Cash flow from financing activities		
Profit remitted to Head Office	(4,839,285)	(17,576,318)
Net cash used in financing activities	<i>(C)</i> <u>(4,839,285)</u>	<u>(17,576,318)</u>
Net increase/(decrease) in cash and cash equivalents	<i>(A) + (B) + (C)</i> <u>61,178,685</u>	<u>(23,983,756)</u>
Cash and cash equivalents as at 1 April	91,490,716	115,474,472
Cash and cash equivalents as at 31 March	<u>152,669,401</u>	<u>91,490,716</u>

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 **BSR & Co. LLP**
Chartered Accountants
Firm's Registration No: 101248W

For **The Hongkong and Shanghai Banking Corporation Limited**

Sd/-
Akeel Master
Partner
Membership No: 046768

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Group General Manager
& Chief Executive Officer, India

Mumbai
20 June 2014



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

(Currency: Indian rupees in thousands)

	2014	2013		2014	2013
1 CAPITAL			3 DEPOSITS		
I Amount of deposit kept with the Reserve Bank of India under Section 11(2) (b) of the Banking Regulation Act, 1949.	30,756,180	24,703,216	A. I. Demand Deposits		
II Capital			i) From banks	5,418,753	3,113,320
Opening balance	44,991,660	44,991,660	ii) From others	145,953,238	147,392,582
	44,991,660	44,991,660	Total i) and ii)	151,371,991	150,505,902
2 RESERVES AND SURPLUS			II. Savings Bank Deposits	119,206,887	119,916,832
I Statutory Reserve			III. Term Deposits		
Opening balance	29,441,802	24,602,517	i) From banks	21,214,825	17,241,575
Additions during the year	3,725,788	4,839,285	ii) From others	425,481,365	280,995,712
	33,167,590	29,441,802	Total i) and ii)	446,696,190	298,237,287
II Capital Reserves – Surplus on sale of Immovable properties			TOTAL (I+II+III)	717,275,068	568,660,021
Opening balance	1,731,524	1,731,524	B. I. Deposits of branches in India	717,275,068	568,660,021
	1,731,524	1,731,524	II. Deposits of branches outside India	–	–
III Capital Reserves			TOTAL (I+II)	717,275,068	568,660,021
Opening balance	13,261,565	13,261,565	4 BORROWINGS		
	13,261,565	13,261,565	I Borrowings in India		
IV Remittable Surplus retained in India for Capital to Risk-weighted Assets Ratio (CRAR) requirements			i) Reserve Bank of India	162,340,000	106,270,000
Opening balance	38,650,172	35,342,172	ii) Other banks	–	37,377
Add : Transfer from profit and loss account (refer to schedule 18 note 5.1)	8,302,449	3,308,000	iii) Other institutions and agencies	4,570,091	749,661
	46,952,621	38,650,172	Total i), ii) and iii)	166,910,091	107,057,038
V Revaluation Reserve			II Borrowings outside India	64,620,635	70,050,909
Opening balance	7,544,564	6,904,503	TOTAL (I+II)	231,530,726	177,107,947
Add: Revaluation of premises net of depreciation on revaluation uplift	436,265	640,061	Secured borrowings included in I above	162,260,091	105,749,661
	7,980,829	7,544,564	5 OTHER LIABILITIES AND PROVISIONS		
VI Investment Reserve			I Bills payable	2,127,087	2,927,443
Opening balance	2,236,777	1,002,623	II Inter-office adjustments	–	–
Transfer from the Profit and Loss account	185,253	1,234,154	Branches in India (net)	–	–
	2,422,030	2,236,777	III Interest accrued	11,687,572	8,100,384
VII Specific Reserve (refer to schedule 18 note 5.5)			IV Provision towards standard assets (See schedule 18 Note 5.6 (aj))	5,161,426	5,174,899
Opening balance	957,993	816,025	V Others (including provisions)	188,565,211	147,775,985
Additions during the year	172,971	141,968	TOTAL (I+II+III+IV+V)	207,541,296	163,978,711
	1,130,964	957,993	6 CASH AND BALANCES WITH RESERVE BANK OF INDIA		
VIII Balance in Profit and Loss Account	10,819,138	13,141,734	I Cash in hand and in ATM's (including foreign currency notes)	1,199,911	992,654
TOTAL (I+II+III+IV+V+VI+VII+VIII)	117,466,261	106,966,131	II Balances with the Reserve Bank of India		
			i) In current account	36,070,701	48,644,055
			ii) In other accounts	–	–
			Total i) and ii)	36,070,701	48,644,055
			TOTAL (I+II)	37,270,612	49,636,709



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

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

(Currency: Indian rupees in thousands)

	2014	2013		2014	2013
7 BALANCES WITH BANKS AND MONEY AT CALL AND SHORT NOTICE			C. i) Priority sectors (including export finance)	96,773,126	98,969,786
I In India			ii) Public sector	–	–
i) Balances with banks			iii) Banks	350,000	4,450,000
a) in current accounts	3,584,590	3,916,561	iv) Others	305,056,361	253,667,226
b) in other deposit accounts	23,966,000	17,642,625	TOTAL i), ii), iii) and iv)	402,179,487	357,087,012
Total a) and b)	27,550,590	21,559,186	10 FIXED ASSETS		
ii) Money at call and short notice			I Premises (including leasehold improvements)		
a) with banks	7,250,000	1,250,000	<i>(Refer to schedule 18 note 5.2)</i>		
b) with other institutions	7,529,826	–	Cost at 1 April		
Total a) and b)	14,779,826	1,250,000	(including revaluation)	10,218,632	9,555,304
Total i) and ii)	42,330,416	22,809,186	Additions during the year	233,579	74,775
II Outside India			Revaluation of premises during the year	437,568	642,415
i) In current accounts	4,345,868	9,544,946	Deductions during the year	(3,978)	(53,862)
ii) In other deposit accounts	–	–		10,885,801	10,218,632
iii) Money at call and short notice	68,722,505	9,499,875	Depreciation to date	(1,714,034)	(1,598,072)
Total i), ii) and iii)	73,068,373	19,044,821	Net book value of Premises (including leasehold improvements)	9,171,767	8,620,560
TOTAL (I+II)	115,398,789	41,854,007	II Other Fixed Assets (including furniture and fixtures)		
8 INVESTMENTS			Cost at 1 April	5,423,592	5,394,104
A. Investments in India in			Additions during the year	327,058	235,787
i) Government securities	462,986,260	277,474,535	Deductions during the year	(169,339)	(206,299)
ii) Other approved securities	–	–		5,581,311	5,423,592
iii) Shares – fully paid	161,103	161,103	Depreciation to date	(5,124,566)	(5,062,764)
iv) Debentures and bonds	47,793,653	66,373,374	Net book value of Other Fixed Assets (including furniture and fixtures)	456,745	360,828
v) Subsidiaries and/or joint ventures:	200	200	TOTAL (I+II)	9,628,512	8,981,388
vi) Others (CDs, CPs, Pass Through Certificates etc)	54,732,598	107,777,797	11 OTHER ASSETS		
TOTAL i), ii), iii), iv), v) and vi)	565,673,814	451,787,009	I Inter-office adjustments		
B. Gross value of Investments in India	566,336,215	452,884,737	Branches in India (net)	–	–
Aggregate provision for depreciation in India	(662,401)	(1,097,728)	II Interest accrued	8,663,692	7,274,107
Net Value of Investments in India	565,673,814	451,787,009	III Tax paid in advance/tax deducted at source (net)	7,210,417	5,841,193
9 ADVANCES			IV Deferred tax (net)	5,651,811	5,865,851
A. i) Bills purchased and discounted	55,822,013	46,435,827	V Stationery and stamps	3,722	3,424
ii) Cash credits, overdrafts and loans repayable on demand	183,769,389	178,396,883	VI Non-banking assets acquired in satisfaction of claims	–	–
iii) Term loans	162,588,085	132,254,302	VII Others	167,124,155	133,373,770
TOTAL i), ii) and iii)	402,179,487	357,087,012	TOTAL (I+II+III+IV+V+VI+VII)	188,653,797	152,358,345
B. i) Secured by tangible assets (including advances against book debt)	201,931,232	181,523,982			
ii) Covered by Bank/ Government guarantees	8,909,264	34,363,443			
iii) Unsecured	191,338,991	141,199,587			
TOTAL i), ii) and iii)	402,179,487	357,087,012			



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

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

(Currency: Indian rupees in thousands)

	2014	2013		2014	2013
12 CONTINGENT LIABILITIES <i>(refer to schedule 18 note 5.12)</i>			IV Guarantees given on behalf of constituents		
I Claims against the bank not acknowledged as debts (including tax matters) <i>(refer to schedule 18 note 5.4)</i>	3,972,136	3,917,873	i) In India	210,890,951	213,399,769
II Liability for partly paid investments	500	500	ii) Outside India	31,262,768	28,026,376
III Liability on account of outstanding forward exchange and derivative contracts			Total i) and ii)	242,153,719	241,426,145
i) Forward contracts	3,001,292,890	3,006,225,667	V Acceptances, endorsements and other obligations	85,128,068	76,325,172
ii) Currency options	211,103,896	255,999,531	VI Bills rediscounted	–	–
iii) Derivative contracts	5,761,087,371	6,076,654,709	VII Other items for which the bank is contingently liable	75,004,878	70,487,154
Total i), ii) and iii)	8,973,484,157	9,338,879,907	TOTAL (I+II+III+IV+V+VI+VII)	9,379,743,458	9,731,036,751

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

(Currency: Indian rupees in thousands)

	2014	2013		2014	2013
13 INTEREST EARNED			16 OPERATING EXPENSES		
I Interest/discount on advances/bills	34,518,951	35,285,383	I Payments to and provisions for employees	10,041,986	10,903,181
II Income on investments	37,148,383	33,382,411	II Rent, taxes and lighting	1,607,848	1,425,470
III Interest on balances with Reserve Bank of India and other inter-bank funds	1,417,341	987,040	III Printing and stationery	188,995	117,982
IV Others	1,574,964	676,941	IV Advertisement and publicity	667,644	517,609
TOTAL (I+II+III+IV)	74,659,639	70,331,775	V Depreciation on Bank's property	348,585	365,863
14 OTHER INCOME			VI Auditors' fees and expenses	4,000	4,000
I Commission, exchange and brokerage (net)	7,235,448	8,236,635	VII Law charges	159,791	162,613
II (Loss)/profit on sale/maturity of investments (net)	(2,671,574)	547,840	VIII Postage, telegrams, telephones, etc.	485,208	402,913
III (Loss)/profit on disposal of land, buildings and other assets (net)	(3,318)	5,700	IX Repairs and maintenance	584,354	494,970
IV Profit on exchange transactions/derivative transactions (net)	10,297,802	8,087,501	X Insurance	847,974	823,224
V Miscellaneous income	350,501	364,527	XI Other expenditure <i>(refer to schedule 18 note 5.6 (af))</i>	11,440,286	9,428,665
TOTAL (I+II+III+IV+V)	15,208,859	17,242,203	TOTAL (I+II+III+IV+V+VI+VII+VIII+IX+X+XI)	26,376,671	24,646,490
15 INTEREST EXPENDED			17 PROVISIONS AND CONTINGENCIES <i>(refer to schedule 18 note 5.6 (c))</i>		
I Interest on deposits	30,037,145	27,232,444	I Provision for advances	752,457	1,237,416
II Interest on Reserve Bank of India/inter-bank borrowings	5,582,754	2,676,138	II Other provisions	161,468	230,407
III Others	532,140	97,730	III Taxation charge		
TOTAL (I+II+III)	36,152,039	30,006,312	– Current tax expense	11,744,000	15,290,000
			– Deferred tax charge/(credit)	214,040	(355,479)
			TOTAL (I+II+III+IV)	11,958,040	14,934,521
			IV Release of provision for depreciation on investments <i>(refer to schedule 18 note 5.6 (c) and (d))</i>	(435,327)	(2,838,309)
			TOTAL (I+II+III+IV)	12,436,638	13,564,035



The Hongkong and Shanghai Banking Corporation Limited – India Branches

(Incorporated in Hong Kong SAR with limited liability)

Schedules forming part of the Financial Statements of India Branches for the year ended 31 March 2014

Schedule 18 – Significant accounting policies and notes to accounts

1 Background

The financial statements for the year ended 31 March 2014 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 8 /21.04.14/2013-14 from 1 July 2013 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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Schedules forming part of the Financial Statements of India Branches for the year ended 31 March 2014

Schedule 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 collateralised borrowing and lending respectively with an agreement to repurchase on agreed terms in accordance with RBI guidelines vide master circular DBOD No. BP.BC. 8/21.04.141/2013-14 from 1 July 2013. 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. Transactions with RBI under the Liquidity Adjustment Facility (LAF) are also accounted for as collateralised 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 assets. 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. The premium or discount arising at the inception of a forward exchange contract not meant for trading or speculation is amortised as expense or income over the life of the contract. Exchange differences arising on such a contract are recognised in the statement of profit and loss in the reporting period in which the exchange rates change. Any profit or loss arising on cancellation or renewal of such a forward exchange contract is recognised as income or expense for the period.



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Schedule 18 – Significant accounting policies and notes to accounts (Continued)

4 Significant accounting policies (Continued)

4.3 Transactions involving foreign exchange (Continued)

Outstanding spot and forward exchange contracts and foreign currency swaps meant for trading or speculation 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

HSBC transacts derivatives for three primary purposes: to create risk management solutions for clients, to manage the portfolio risks arising from client business and to manage and hedge HSBC's own risks. Derivatives (except for interest rate swaps which are designated as hedging instruments as per Forward Rate Agreement/Interest Rate Swap Circular Ref.No.MPD. BC.187/07.01.279/1999-2000 dated July 7, 1999) are held for trading. Trading activities include sales, market-making and risk management while 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.

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

Trading transactions are marked-to-market on a daily basis and the unrealised losses or gains are recognised into the profit and loss account as 'Other Income'. Currency Options are marked-to-market using market values after considering the premium received or paid. The profit or loss on revaluation is recorded in the profit and loss account and is included in 'Other assets' or 'Other liabilities'. Accordingly, premium received and paid is recognised in the profit and loss account upon expiry or exercise of the options.

Fair value adjustments as explained in schedule 18 note 5.6 (aa) are made on a monthly basis at the minimum with the adjustment accounted for in the profit and loss account and the corresponding debit/credit posted against 'Other Liabilities'.

Interest rate swaps designated as hedges 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.

Gains and losses from changes in the fair value of derivatives, including the contractual interest, that do not qualify for hedge accounting are recognized immediately in the profit and loss account as 'Other income'

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).

Securitized 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.1/21.04.048/2013-14 dated 1 July 2013 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.



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Schedule 18 – Significant accounting policies and notes to accounts (Continued)

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.

(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. In 2004 the bank introduced new salary terms and for staff opting for the same, the pension benefits have been frozen based on the salary and service on the date of conversion. In respect of employees covered under the defined benefit plan, the Bank provides for the pension liability based on an actuarial valuation using the projected unit credit method at the balance sheet date carried out by an independent qualified actuary. In respect of other employees, the contributions are accounted for on an accrual basis and recognised in the profit and loss account.

(d) Compensated absences

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

(e) Actuarial gains/losses

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

(f) Employee share-based payments

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

4.8 Fixed assets

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

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

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

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

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



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Schedule 18 – Significant accounting policies and notes to accounts (Continued)

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.

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 utilisation trends. Provision for debit card reward points is made based on management estimates 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. 8,302 million (previous year: Rs.3,308 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. 438 million (previous year: Rs. 642 million) based on an independent professional valuation.

Certain premises valued at Rs. 7,347 million (previous year: Rs. 6,974 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.

5.3 Other assets

The Bank holds a valid Banker’s Receipt for 110,760 Canstock units (previous year: 110,760 units) 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 counterparty 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.



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Schedule 18 – Significant accounting policies and notes to accounts (Continued)

5 Notes to accounts (Continued)

5.4 Taxation

Tax liabilities in respect of the Bank amounting to Rs. 3,405 million in respect of assessment years 1991-92 to 2010-11 (previous year Rs. 3,405 million for the assessment years 1991-92 to 2009-10) are pending final outcome of the appeals filed by the Bank/ Revenue Authorities. 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)

Particulars	As per Basel III framework		As per Basel II framework	
	As at 31 March 2014	As at 31 March 2013	As at 31 March 2014	As at 31 March 2013
i. Tier 1 capital	133,138,036	NA	133,206,934	120,804,915
ii. Tier 2 capital	12,305,793	NA	12,269,554	10,771,016
iii. Total capital	145,443,829	NA	145,476,488	131,575,931
iv. Total risk weighted assets & contingents	837,719,638	NA	837,021,487	769,574,433
v. Common Equity Tier 1 Capital Ratio (%)	15.89%	NA	NA	NA
vi. Tier I Capital Ratio (%)	15.89%	NA	15.91%	15.70%
vi. Tier II capital Ratio (%)	1.47%	NA	1.47%	1.40%
vii. Total Capital Ratio (CRAR)	17.36%	NA	17.38%	17.10%
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 in Master Circular – Basel III Capital Regulations, issued vide circular DBOD.No.BP.BC.2/21.06.201/2013-14 dated 1 July 2013.

(b) Business ratios/information

The details relating to business ratios are given below:

	For the year ended 31 March 2014	For the year ended 31 March 2013
Interest income as percentage to working funds	6.42%	6.57%
Non-interest income as percentage to working funds	1.31%	1.61%
Operating profits as percentage to working funds	2.35%	3.07%
Return on assets	1.26%	1.81%
Business (deposits plus advances) per employee (Rs '000)	227,435	188,988
Net profit per employee (Rs '000)	3,103	4,041

The figures have been computed in accordance with RBI guidelines vide master circular DBOD. BP.BC.No. 7/21.04.018/2013-14 dated 1 July 2013.



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Schedule 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 2014	For the year ended 31 March 2013
(Release) of provision for depreciation on investment	(435,327)	(2,838,309)
Provision towards NPA (including write-offs net of write backs)	765,930	1,333,474
Provision towards standard assets	–	–
(Release) towards country risk	(13,473)	(96,058)
Provision towards current tax expense	11,744,000	15,290,000
Provision towards deferred tax charge/(credit)	214,040	(355,479)
Other Provisions and Contingencies (refer to note 5.12):		
Provision towards impaired assets	–	14,571
Provision towards reward points	188,494	158,775
Provision towards off balance sheet exposures	–	–
Provision towards claims under litigation	–	–
Provision towards onerous contracts	–	11,783
(Release)/Provision for overdue income	(27,469)	44,719
Others	443	559
Total	12,436,638	13,564,035

(d) Investments

(Rs '000)

	As at 31 March 2014	As at 31 March 2013
(1) Value of investments		
(i) Gross value of investments	566,336,215	452,884,737
(a) In India	566,336,215	452,884,737
(b) Outside India	–	–
(ii) Provision for depreciation	(662,401)	(1,097,728)
(a) In India	(662,401)	(1,097,728)
(b) Outside India	–	–
(iii) Net value of investments	565,673,814	451,787,009
(a) In India	565,673,814	451,787,009
(b) Outside India	–	–
(2) Movement of provisions held towards depreciation on investments		
(i) Opening balance	1,097,728	3,518,087
(ii) Add : Provision made during the year	–	–
(iii) Less :Write back of excess provision during the year	(435,327)	(2,838,309)
(iv) Add: MTM on hedging swaps reclassified as trading swaps as at 31 March 2013*	–	417,950
(v) Closing balance	662,401	1,097,728

The outstanding commitments relating to securities purchase and sale contracts as at 31 March 2014 are Rs. 6,081,900 (previous year: Rs. 11,507,310) and Rs. 28,940,973 (previous year: Rs. 14,833,766) respectively.

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



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Schedule 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 2014				
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	38,685,523	8,154,248	–	1,000	1,000
(ii)	Financial Institutions	3,383,989	–	–	–	–
(iii)	Banks	17,313,921	9,517,163	–	–	–
(iv)	Private Corporate	43,966,022	40,916,978	–	160,103	1,710,103
(v)	Subsidiaries/Joint Ventures	500	500	–	500	500
(vi)	Others	–	–	–	–	–
(vii)	Provision held towards depreciation	(662,401)	–	–	–	–
	Total	102,687,554	58,588,889	–	161,603	1,711,603

		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	47,541,286	12,489,051	–	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	174,312,474	108,257,591	–	161,603	3,436,049

Note: Total investments include net investments in PTC of Rs.24,975 million (Previous Year: Rs.18,531 million)

* 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.

(f) Non-performing non SLR investments

The non-performing investments as at 31 March 2014 are Rs. 3 (previous year: Rs. 6). This represents 3 preference share investments which have each been written down to Re. 1. (Previous year included 3 equity share investments and 3 preference share investments which had each been written down to Re.1).



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Schedule 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 2013-14	Maximum Outstanding During the Year 2013-14	Daily Average Outstanding During the Year 2013-14	Outstanding as at 31 March 2014
Securities sold under repos				
i. Government securities	1,502,800	163,997,600	22,863,003	163,997,600
ii. Corporate debt securities	–	–	–	–
Securities purchased under reverse repos				
i. Government securities	100,000	241,870,200	28,669,521	7,764,300
ii. Corporate debt securities	–	–	–	–

(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	–	–	–	–

Notes:

- The above figures also include Liquidity Adjustment Facility/Repo transactions undertaken with the RBI.
- Minimum outstanding during the year excludes days with Nil outstanding.

(h) Movements in NPAs

(Rs '000)

	For the Year March 2014			For the Year March 2013		
	Gross NPA	Provision	Net NPA	Gross NPA	Provision	Net NPA
(a) Opening Balance	6,408,323	5,218,153	1,190,170	7,201,104	4,997,669	2,203,435
(b) Additions during the period	3,057,972	894,115	2,163,857	2,004,595	1,300,943	703,652
(c) Reductions during the period	(2,742,777)	(487,072)	(2,255,705)	(2,797,376)	(1,080,459)	(1,716,917)
(d) Closing Balance	6,723,518	5,625,196	1,098,322	6,408,323	5,218,153	1,190,170

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 0.27% as at 31 March 2014 (previous year: 0.33%).

(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 85.68% as at 31 March 2014 (previous year: 81.43%).



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Schedule 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 2014	For the year ended 31 March 2013
Gross NPAs* as on 1st April	6,408,323	7,201,104
Additions (fresh NPAs during the year)	3,057,972	2,004,595
Sub-total (A)	9,466,295	9,205,699
Less:		
(i) Upgradations	(1,258,462)	(1,042,871)
(ii) Recoveries (excluding recoveries made from upgraded accounts)	(981,762)	(913,631)
(iii) Write-offs	(502,553)	(840,874)
Sub-total (B)	(2,742,777)	(2,797,376)
Gross NPAs as on 31st March (A-B)	6,723,518	6,408,323

*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 2014	As at 31 March 2013
A Direct exposure	134,517,381	109,739,150
(i) Residential mortgages – Lendings fully secured by mortgages on residential property that is or will be occupied by the borrower or that is rented *	95,047,117	78,605,124
– Of which individual housing loans eligible for inclusion in priority sector advances	3,454,011	4,424,598
(ii) Commercial real estate	39,470,264	31,134,026
(iii) Investments in Mortgage Backed Securities (MBS) and other securitised exposures –		
a. Residential	–	–
b. Commercial Real estate	–	–
B Indirect exposure	23,657,466	16,715,648
Fund based and non-funded based exposures on National Housing Bank (NHB) and Housing Finance Companies	23,656,522	16,714,704
Others	944	944
Total exposure to real estate sector (A+B)	158,174,847	126,454,798

* Includes undrawn limits of Rs.23,090 million (previous year: Rs. 16,486 million) pertaining to mortgages on residential property.



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Schedule 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 2014	As at 31 March 2013
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	16,100
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;	85,847	92,508
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;	13,873	74,732
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;	7,995,231	7,678,909
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;	10,392,060	1,750,000
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	10,998,200	11,750,000
Total Exposure to Capital Market (i to xi)	29,501,311	21,362,249



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Currency Indian rupees in thousands

Schedule 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

(for the year ended 31 March 2013)

Sr No	Type of Restructuring	Asset Classification Details	Under CDR Mechanism				Under SME Restructuring Mechanism				Others				Total				
			Stand-ard	Sub-stand-ard	Doubt-ful	Loss	Total	Stand-ard	Sub-stand-ard	Doubt-ful	Loss	Total	Stand-ard	Sub-stand-ard	Doubt-ful	Loss	Total		
1	Restructured accounts as on April 1 of the FY (opening figures)*	No of borrowers Amount outstanding Provision thereon	-	3	-	-	-	3	-	-	24,603	-	24,603	-	24,603	-	24,603	-	24,603
			-	492,300	-	-	-	492,300	-	-	218,883	-	218,883	-	218,883	-	218,883	-	218,883
			-	221,683	-	-	-	221,683	-	-	181,573	-	181,573	-	181,573	-	181,573	-	181,573
2	Fresh Restructuring during the year	No of borrowers Amount outstanding Provision thereon	-	-	-	-	-	-	-	-	313	-	313	-	313	-	313	-	313
			-	-	-	-	-	-	-	-	13,839	-	13,839	-	13,839	-	13,839	-	13,839
			-	-	-	-	-	-	-	-	13,818	-	13,818	-	13,818	-	13,818	-	13,818
3	Upgradations to restructured standard category during the FY	No of borrowers Amount outstanding 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	Downgradations of restructured accounts during the FY	No of borrowers Amount outstanding Provision thereon	(3)	-	3	-	-	-	-	-	1	-	1	-	1	-	1	-	1
			-	492,300	492,300	-	-	-	-	-	(105,410)	105,410	-	-	-	-	-	-	-
			-	221,683	221,683	-	-	-	-	-	40,598	40,598	-	-	-	-	-	-	-
6	Write-off of restructured accounts during the FY**	No of borrowers Amount outstanding Provision thereon	-	-	-	-	-	-	-	-	(11)	(21,164)	-	(21,175)	-	(21,175)	-	(21,175)	-
			-	-	-	-	-	-	-	-	(2,578)	(216,370)	-	(393,108)	-	(393,108)	-	(393,108)	-
			-	-	-	-	-	-	-	-	(456)	(112,475)	-	(112,931)	-	(112,931)	-	(112,931)	-
7	Restructured accounts as on March 31 of the FY (closing figures)*	No of borrowers Amount outstanding Provision thereon	-	3	3	-	-	3	-	-	3,753	-	3,753	-	3,753	-	3,753	-	3,753
			-	268,500	268,500	-	-	268,500	-	-	121,690	-	121,690	-	121,690	-	121,690	-	121,690
			-	130,400	130,400	-	-	130,400	-	-	123,495	-	123,495	-	123,495	-	123,495	-	123,495

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

** Includes recovery of restructured accounts as below

Recovery of restructured accounts during the FY	Amount outstanding	Provision thereon	Stand-ard	Sub-stand-ard	Doubt-ful	Loss	Total
-	(223,800)	(223,800)	-	-	-	-	(19,649)
-	(91,283)	(91,283)	-	-	-	-	(1,823)
-	-	-	-	-	-	-	299
-	-	-	-	-	-	-	(89,225)
-	-	-	-	-	-	-	(88,926)
-	-	-	-	-	-	-	(174,160)
-	-	-	-	-	-	-	(174,160)
-	-	-	-	-	-	-	(9)
-	-	-	-	-	-	-	(19,649)
-	-	-	-	-	-	-	(1,823)
-	-	-	-	-	-	-	299
-	-	-	-	-	-	-	(89,225)
-	-	-	-	-	-	-	(88,926)
-	-	-	-	-	-	-	(174,160)
-	-	-	-	-	-	-	(174,160)
-	-	-	-	-	-	-	(9)
-	-	-	-	-	-	-	(19,649)
-	-	-	-	-	-	-	(1,823)
-	-	-	-	-	-	-	299
-	-	-	-	-	-	-	(89,225)
-	-	-	-	-	-	-	(88,926)
-	-	-	-	-	-	-	(174,160)
-	-	-	-	-	-	-	(174,160)
-	-	-	-	-	-	-	(9)
-	-	-	-	-	-	-	(19,649)
-	-	-	-	-	-	-	(1,823)
-	-	-	-	-	-	-	299
-	-	-	-	-	-	-	(89,225)
-	-	-	-	-	-	-	(88,926)
-	-	-	-	-	-	-	(174,160)
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-	-	-	-	-	-	-	(174,160)
-	-	-	-	-	-	-	(9)
-	-	-	-	-	-	-	(19,649)
-	-	-	-	-	-	-	(1,823)
-	-	-	-	-	-	-	299



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Schedule 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 2014*	Provision held as at 31 March 2014	Exposure as at 31 March 2013*	Provision held as at 31 March 2013
Insignificant	265,900,882	60,835	219,350,497	52,909
Low	8,511,416	–	36,038,647	21,399
Moderate	6,141,329	–	3,183,988	–
High	6,059,324	–	6,974,427	–
Very high	23,413	–	46,163	–
Restricted	145,025	–	63,605	–
Off-credit	–	–	–	–
Total	286,781,389	60,835	265,657,327	74,308

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 the following customers were sanctioned an additional 5% limit in accordance with aforesaid RBI guidelines:- Aircel Limited, Cipla Limited, Hindalco Industries Limited, Larsen & Toubro Limited, Microsoft India (R&D) Pvt. Ltd, Reliance Industries Limited, Siemens Limited, Tata Steel Limited, Tata Chemicals Limited, Tata Motors Limited and Wipro Limited. Further, the Bank's exposures to single borrower were within the limit except in case of Reliance Industries Limited.

(q) Concentration of Deposits

(Rs '000)

	As at 31 March 2014	As at 31 March 2013
Total Deposits of twenty largest depositors	125,427,053	100,624,361
Percentage of Deposits of twenty largest depositors to Total Deposits of the bank	17.49%	17.69%

(r) Concentration of Advances

(Rs '000)

	As at 31 March 2014	As at 31 March 2013
Total Advances of twenty largest borrowers	367,306,553	325,989,498
Percentage of Advances of twenty largest borrowers to Total Advances of the bank	19.05%	21.89%



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Schedules forming part of the Financial Statements of India Branches for the year ended 31 March 2014

Schedule 18 – Significant accounting policies and notes to accounts (Continued)

5 Notes to accounts (Continued)

5.6 Statutory disclosures (Continued)

(s) Concentration of Exposures

(Rs '000)

	As at 31 March 2014	As at 31 March 2013
Total Exposure of twenty largest borrowers/ customers	373,823,864	322,796,906
Percentage of Exposures of twenty largest borrowers/customers to Total Exposure of the bank on borrowers/ customers	18.40%	20.36%

(t) Concentration of NPAs

Total exposure to top four NPA accounts is Rs.1,829 million (previous year Rs. 1,757 million). The exposure is computed on a gross basis.

(u) Sector-wise NPAs

(Rs '000)

Sector	Percentage of Gross NPAs to Gross Advances in that sector	
	As at 31 March 2014	As at 31 March 2013
Agriculture & allied activities	0%	0%
Industry (Micro & small, Medium and Large)	1.02%	1.01%
Services	2.54%	2.70%
Personal Loans*	2.45%	2.71%

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 2014	For year ended 31 March 2013
Total number of loan assets securitised	–	–
Total book value of loan assets securitised(Rs '000)	–	–
Sale consideration received for the securitised assets (Rs '000)	–	–
Gain on sale on account of securitisation (Rs '000)	–	–
Gain on securitisation recognised in Income Statement (Rs '000)	1,243	1,762
The unamortised gain as at 31 March (Rs '000)	976	2,219
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

There has been no sale of financial assets to SC or RC during the year ended 31 March 2014 (previous year Rs. Nil).

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

There has been no purchase or sale of NPAs during the year ended 31 March 2014 (previous year Rs. Nil).

(y) Off Balance Sheet SPVs

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



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Schedule 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 2014	As at 31 March 2013
(i)	The notional principal of swap agreements	5,246,553,560	5,440,027,603
(ii)	Losses which would be incurred if counterparties failed to fulfill their obligations under the agreements	43,309,985	36,151,495
(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)	87%	85%
(v)	The fair value of the swap book	(938,186)	(4,037,878)

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

Nature	Terms	As at 31 March 2014		As at 31 March 2013	
		No.	Notional principal (Rs '000)	No.	Notional principal (Rs '000)
Trading swaps	Receive floating pay floating	43	74,817,768	42	63,791,520
Trading swaps	Receive floating pay fixed	2,995	2,748,787,502	3,829	2,904,209,978
Trading swaps	Receive fixed pay floating	3,274	2,422,948,290	3,580	2,472,026,105
Hedging swaps	Receive floating pay fixed	–	–	–	–

There were no FRAs outstanding as at 31 March 2014 and 31 March 2013.

(aa) Risk exposure in derivatives

Qualitative disclosure

Derivatives Usage, the associated risks and business purposes served

The Bank transacts derivatives for three primary purposes: to create risk management solutions for clients, to manage the portfolio risks arising from client business and to manage and hedge its own risks.

Our control of market risk in derivatives is based on a policy of restricting individual operations to trading within a list of permissible instruments authorised for the Bank, of enforcing new product approval procedures, and of restricting trading in the more complex derivative products (as permitted by regulations) only where appropriate levels of product expertise and robust control systems exist.

Derivatives (except for derivatives which are designated as effective hedging instruments) are held for trading. Within the held-for-trading classification are two types of derivatives: those used in sales and trading activities, and those used for risk management purposes but which for various reasons do not meet the qualifying criteria for hedge accounting. These activities are described more fully below.

Trading derivatives

Most of the Bank's derivative transactions relate to sales and trading activities. Sales activities include the structuring and marketing of derivative products to customers to enable them to take, transfer, modify or reduce current or expected risks. Trading activities include market-making and risk management.

Market-making entails quoting bid and offer prices to other market participants for the purpose of generating revenues based on spread and volume.

Risk management activity is undertaken to manage the risk arising from client transactions, with the principal purpose of retaining client margin.

Other derivatives classified as held for trading include non-qualifying hedging derivatives, ineffective hedging derivatives and the components of hedging derivatives that are excluded from assessing hedge effectiveness. These derivative portfolios are not risk managed on a trading intent basis and are treated as non-traded risk for value at risk (VaR) measurement purposes.



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Schedule 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)

Hedging derivatives

The Bank uses derivatives (principally interest rate swaps) for hedging purposes in the management of its own asset and liability portfolios and structural positions. This enables the Bank to optimise the overall cost of accessing debt capital markets, and to mitigate the market risk which would otherwise arise from structural imbalances in the maturity and other profiles of its assets and liabilities.

Structure & organization for management of risk in derivatives trading

The management of market risk exposure in derivatives is principally undertaken in Markets, where the majority of value at risk (VaR) of the Bank and almost all trading VaR resides, using approved risk limits. Limits are set for portfolios, products and risk types, with market liquidity being a primary factor in determining the level of limits set. Group Risk, an independent unit within the Bank, is responsible for our market risk management policies and measurement techniques.

The Bank has an independent market risk management and control function which is responsible for measuring market risk exposures in accordance with the policies defined by Risk, and monitoring and reporting these exposures against the prescribed limits on a daily basis.

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

The Bank's derivative activities give rise to open positions in portfolios of derivatives. These positions are managed constantly to ensure that they remain within acceptable risk levels. When entering into derivative transactions, the Bank employs the same credit risk management framework to assess and approve potential credit exposures that it uses for traditional lending.

Derivatives market risk arises from interest rates, foreign exchange, and credit spreads within Global Banking and Markets.

The Bank employs a range of tools to monitor and limit market risk exposures. These include sensitivity analysis, value at risk ('VaR'), stressed VaR and stress testing. While VaR provides a measure of the market risk in the Bank, sensitivity analysis (e.g PV01) and VaR are more commonly utilised for the management of the business units. Stress testing and stressed VaR complement these measures with estimates of potential losses arising from market turmoil. Market risk is managed and controlled through approved limits. Our VaR and stressed VaR models are predominantly based on historical simulation. VaR measures are calculated to a 99% confidence level and use a one-day holding period, whereas stressed VaR uses a 10-day holding period. The accuracy of our VaR models is routinely validated by back-testing the actual daily profit and loss results, adjusted to remove non-modelled items such as fees and commissions, against the corresponding VaR numbers.

Limits are proposed by the Head of Treasury and are endorsed by local Chief Risk Officer (CRO) and Chief Executive Officer (CEO) before submission to Group Risk for approval. Upon approval of country limits, they are delegated by entity's CEO to Head of Treasury, who delegates it downward within his team.

These limits are monitored daily by the Bank's Global Markets Product Control Department through system reports and advised to senior management on an ongoing basis.

Credit risk arising from derivatives is measured as the amount which could be lost if a customer or counterparty fails to make repayments. In the case of derivatives, the measurement of exposure takes into account the current mark-to-market value to the Bank of the contract and the expected potential change in that value over time caused by movements in market rates. Credit risk on contracts having a negative mark-to-market value is restricted to the potential future change in value.

Credit exposure is monitored within limits, approved by individuals within a framework of delegated authorities. These limits represent the peak exposure or loss to which the Bank could be subjected should the customer or counterparty fail to perform its contractual obligations.

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 honor its obligations in the event of crystallisation of the exposure.

The International Swaps and Derivatives Association ('ISDA') Master Agreement is our preferred agreement for documenting derivatives activity. It provides the contractual framework within which dealing activity across a full range of over-the-counter ('OTC') products is conducted, and contractually binds both parties to apply close-out netting across all outstanding transactions covered by an agreement.



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Schedule 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)

If either party defaults or another pre-agreed termination event occurs, it is common, and our preferred practice, for the parties to execute a Credit Support Annex ('CSA') in conjunction with the ISDA Master Agreement. Under a CSA, collateral is passed between the parties to mitigate the counterparty risk inherent in outstanding positions. Despite these being a standard credit mitigant for OTC derivatives across the Globe, market practice in this respect is still evolving in India. The Bank has executed a few CSAs and is negotiating with some more counterparties.

Hedging policy

The Bank bases its hedging decisions on an Asset and Liability Management 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 manage 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 underlying.

At the inception of a hedging relationship, the Bank documents the relationship between the hedging instruments and the hedged items, its risk management objective and its strategy for undertaking the hedge. The Bank also requires a documented assessment, both at hedge inception and on an ongoing basis, of whether or not the hedging instruments, primarily derivatives, that are used in hedging transactions are highly effective in offsetting the changes attributable to the hedged risks in the hedged items.

Hedge effectiveness testing

To qualify for hedge accounting, the Bank requires that at the inception of the hedge and throughout its life, each hedge must be expected to be highly effective (prospective effectiveness), and demonstrate actual effectiveness (retrospective effectiveness) on an ongoing basis.

For prospective effectiveness, the hedging instrument must be expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated. For actual effectiveness to be achieved, the changes in fair value or cash flows must offset each other in the range of 80% to 125%.

The Bank treats hedging derivatives as 'Other Derivatives' in the trading book for accounting purposes.

Valuation & Provisioning of Derivatives Contracts

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.

All trading derivatives are recognised initially at fair value. In the normal course of business, the fair value of a financial instrument on initial recognition is the transaction price (i.e., the fair value of the consideration given or received).

In certain circumstances, however, the fair value will be based on other observable current market transactions in the same instrument, without modification or repackaging, or on a valuation technique whose variables include only data from observable markets, such as interest rate yield curves, option volatilities and currency rates. When such evidence exists, the Bank recognises a trading gain or loss on inception of the financial instrument, being the difference between the transaction price and the fair value. When unobservable market data have a significant impact on the valuation of financial instruments, the entire initial difference in fair value from the transaction price as indicated by the valuation model is not recognised immediately in the income statement. Instead, it is recognised over the life of the transaction (also known as Day 1 P&L reserve) on an appropriate basis, when the inputs become observable, the transaction matures or is closed out, or when the Bank enters into an offsetting transaction.

Subsequent to initial recognition, the fair values of financial instruments measured at fair value are measured in accordance with the Bank's valuation methodologies, which are described below.

Fair values are subject to a control framework designed to ensure that they are either determined or validated by a function independent of the risk-taker.

For all financial instruments where fair values are determined by reference to externally quoted prices or observable pricing inputs to models, independent price determination or validation is utilised. In inactive markets, direct observation of a traded price may not be possible. In these circumstances, the Bank will source alternative market information to validate the financial instrument's fair value, with greater weight given to information that is considered to be more relevant and reliable.

Fair value adjustments are adopted when the Bank considers that there are additional factors that would be considered by a market participant which are not incorporated within the valuation model. The typical types of fair value adjustments carried by the Bank are bid-offer adjustments, uncertainty adjustments, credit and debit valuation adjustments (CVA and DVA) and Day 1



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Schedule 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)

Profit and Loss reserve. A bid-offer adjustment recognises the cost to the Bank to close out the open market risk positions in the market as valuation models typically generate mid-market values. Where uncertainty exists about a market data or quote an adjustment may be made to recognise the same. 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 whereas DVA adjusts the fair value of a derivative to reflect the PD of the Bank failing to meet its obligations under a derivative contract.

Quantitative disclosure

(Rs '000)

Sr. No.	Particular	As at 31 March 2014		As at 31 March 2013	
		Currency Derivatives	Interest Rate Derivatives	Currency Derivatives	Interest Rate Derivatives
1	Derivatives (Notional Principal Amount)				
	a) for hedging*	81,364,570	–	–	–
	b) for trading	3,619,692,336	5,272,427,251	3,873,329,478	5,465,550,428
2	Marked-to-Market Position				
	a) Asset (+)	111,494,081	43,788,943	79,843,349	36,775,611
	b) Liability (–)	116,487,629	44,663,480	78,683,612	40,733,105
3	Credit Exposure #	219,675,573	84,689,457	199,536,685	81,073,254
4	Likely impact of one percentage point change in interest rate (100*PV01)				
	a) on hedging derivatives	–	–	–	–
	b) on trading derivatives	2,875,303	3,530,342	3,866,756	6,357,343
5	Maximum and Minimum of 100*PV01 observed during the year				
	a) on hedging				
	Maximum	–	–	–	–
	Minimum	–	–	–	–
	b) on trading				
	Maximum	3,889,343	6,352,607	5,586,641	6,357,343
	Minimum	1,746,590	2,633,827	3,689,568	4,082,518

* Comprise foreign currency swaps in the Banking Book entered with RBI through the swap window to mobilize FCNR (B) funds.

The credit exposure is computed based on the current exposure method specified in the RBI Basel III norms.

Currency derivatives include forwards, currency options, currency swaps and currency futures.

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

(ab) Exchange traded interest rate derivatives

(Rs. '000)

No.	Particulars	31 March 2014	31 March 2013
(i)	Notional principal amount of exchange traded interest rate derivatives undertaken during the year (instrument-wise)*		
	a) 10 Yrs G Secs	9,442,800	–
	b) U.S. Dollar currency futures	15,185,131	8,292,845
(ii)	Notional principal amount of exchange traded interest rate derivatives outstanding	5,000	–
(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.



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5 Notes to accounts (Continued)

5.6 Statutory disclosures (Continued)

(ac) Subordinated debt

There was no subordinated debt that was outstanding at any point of time during the year ended 31 March 2014 (Previous year: Rs. Nil).

(ad) Penalties imposed by RBI

There have been no penalties paid during the year.

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 were not in conformity with extant RBI guidelines. The penalty amount was paid to RBI on 26 September 2012.

(ae) Other Payments made to RBI

An application was filed by the Bank before the Compounding Authority, Cell for Effective Implementation of FEMA (CEFA), Foreign Exchange Department, for compounding of FEMA contravention concerning ACU procedural guidelines issued under FEMA 1999 [A.P.(DIR Series) Circular No. 35 dated February 17, 2010]. The Compounding Authority has compounded the admitted contravention on payment of an amount of Rs.118,985,000/-. This amount was paid by the Bank on 13 January 2014.

(af) Operating Expenses – other expenditure

“Other expenditure” includes the following:

(Rs. '000)

	For the year ended 31 March 2014	For the year ended 31 March 2013
Head office costs allocated	1,433,446	1,914,755
Services contracted out	7,158,084	5,255,749

(ag) 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 2014	31 March 2013
Principal amount remaining unpaid to any registered supplier as at the year end	34	5,494
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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Schedule 18 – Significant accounting policies and notes to accounts (Continued)

5 Notes to accounts (Continued)

5.6 Statutory disclosures (Continued)

(ah) Bancassurance income

During the year, the Bank earned an amount of Rs.926 million towards bancassurance income (previous year: Rs. 1,859 million)
(Rs '000)

Nature of Income	For the year ended 31 March 2014	For the year ended 31 March 2013
For selling life insurance products	108,873	171,989
For selling non life insurance products	(1,478)	17,426
For selling mutual fund products	818,333	1,669,389
Total	925,728	1,858,804

(ai) Primary Dealership Disclosure

The Bank merged the Primary Dealership (PD) 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 '000)

	For the year ended 31 March 2014		
	Dated Government securities	State Government securities	Treasury Bills
Annual bidding commitment	141,930,000	Not Applicable	351,500,000
Bids tendered	328,641,000	68,450,000	1,718,361,100
Bids accepted	119,913,900	16,731,000	499,447,700
Success ratio	Not Applicable	Not Applicable	142.09%
Success ratio required as per RBI guidelines	Not Applicable	Not Applicable	40.00%

(Rs '000)

	For the year ended 31 March 2013		
	Dated Government securities	State Government securities	Treasury Bills
Annual bidding commitment	134,530,000	Not Applicable	305,000,000
Bids tendered	345,000,000	57,100,000	1,066,595,000
Bids accepted	132,932,780	12,619,190	179,855,775
Success ratio	Not Applicable	Not Applicable	58.97%
Success ratio required as per RBI guidelines	Not Applicable	Not Applicable	40.00%

(aj) Provision towards Standard Assets

(Rs '000)

	As at 31 March 2014	As at 31 March 2013
Provision towards standard assets*	4,407,815	4,407,815
Provision towards country risk (Refer note 5.6 (o))	60,835	74,308
Accumulated surplus arising on sale of NPA	692,776	692,776
Total	5,161,426	5,174,899

* Comprises general provision towards standard assets in accordance with RBI Master Circular DBOD.No.BP. BC.1/21.04.048/2013-14 dated July 01, 2013.



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Schedule 18 – Significant accounting policies and notes to accounts (Continued)

5 Notes to accounts (Continued)

5.6 Statutory disclosures (Continued)

(ak) 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 2014

(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	5,777,898	23,796,149	21,805,499	27,360,893	42,871,814	61,545,019	41,849,237	39,715,521	46,576,853	90,880,604	402,179,487
Investment Securities	146,300,937	20,737,174	10,289,594	47,478,109	62,095,068	61,656,621	71,716,902	70,023,066	7,456,678	67,919,665	565,673,814
Deposits	25,247,468	79,998,542	23,433,769	50,411,703	78,099,034	28,223,546	95,820,492	108,378,020	227,659,399	3,095	717,275,068
Borrowings	106,351,431	69,733,285	3,175,495	11,383,850	40,784,175	37,366	65,124	-	-	-	231,530,726
Foreign Currency Assets	77,425,016	6,869,960	9,265,732	14,783,776	24,137,260	28,266,444	8,362,804	36,391,213	17,017,875	20,352,261	242,872,341
Foreign Currency Liabilities	9,899,487	7,860,644	3,768,636	13,660,923	49,787,490	10,037,104	14,230,594	105,656,965	28,413,338	20,159,602	263,474,783

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	1,080,094	32,046,322	15,989,178	29,642,026	62,216,474	62,836,047	17,148,807	30,250,203	36,361,441	69,516,420	357,087,012
Investment Securities	115,058,086	22,880,490	19,117,254	44,369,304	42,081,049	42,411,447	53,350,035	34,096,099	8,069,665	70,353,580	451,787,009
Deposits	21,570,552	63,960,661	31,339,092	20,798,924	62,760,011	18,825,936	82,749,016	29,809,791	236,846,038	-	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

Note: Based on enhanced behavioral studies, certain previous year numbers have been reclassified as required.

(al) 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 2014		For the year ended 31 March 2013	
	Gratuity	Pension	Gratuity	Pension
Defined benefit obligation	807,290	2,687,788	822,454	2,584,242
Fair value of plan assets	912,627	1,706,098	837,291	1,662,440
(Surplus)/deficit	(105,337)	981,690	(14,837)	921,802
Effect of limit on plan surplus	-	-	-	-
Unrecognised Past service Costs	-	-	-	-
Net (surplus)/deficit	(105,337)	981,690	(14,837)	921,802

The pension liability includes a liability in respect of the unfunded plans of Rs. 314 million (previous year: Rs. 351 million). The majority of the plan assets are invested in government securities, corporate bonds and special deposit schemes.



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Schedule 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 2014		For the year ended 31 March 2013	
	Gratuity	Pension	Gratuity	Pension
Opening balance	822,454	2,584,242	754,515	1,515,409
Current service cost	66,169	100,374	74,503	47,726
Interest cost	63,044	207,516	60,368	128,944
Past service cost	–	–	–	–
Benefits paid	(88,276)	(69,252)	(121,255)	(81,600)
Actuarial (gain)/ loss recognised during the year	(56,101)	(135,092)	54,323	973,763
Closing Balance	807,290	2,687,788	822,454	2,584,242

c) Changes in the fair value of plan assets

(Rs '000)

	For the year ended 31 March 2014		For the year ended 31 March 2013	
	Gratuity	Pension	Gratuity	Pension
Opening balance	837,291	1,662,440	780,564	1,541,174
Expected return on plan assets	68,578	131,666	61,275	121,502
Contributions by the Bank	128,150	–	92,000	–
Benefits paid	(88,276)	(33,225)	(121,255)	(44,788)
Actuarial (loss)/gain recognised during the year	(33,116)	(54,783)	24,707	44,552
Closing Balance	912,627	1,706,098	837,291	1,662,440
Actual return on plan assets	35,462	76,883	85,982	166,054

The Bank expects to contribute Rs. Nil to the gratuity plan assets and Rs. 47 million to the pension assets for the annual period ending on 31 March 2015.

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

(Rs '000)

	For the year ended 31 March 2014		For the year ended 31 March 2013	
	Gratuity	Pension	Gratuity	Pension
Current service cost	66,169	100,374	74,503	47,726
Interest cost	63,044	207,516	60,368	128,944
Past service cost	–	–	24,957	–
Expected return on plan assets	(68,578)	(131,666)	(61,275)	(121,502)
Effect of limit on plan surplus	–	–	–	–
Net actuarial (gain)/loss recognised during the year	(22,985)	(80,309)	29,616	929,211
	37,650	95,915	128,169	984,379



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5 Notes to accounts (Continued)

5.7 Employee benefits (Continued)

e) Key assumptions

	For the year ended 31 March 2014		For the year ended 31 March 2013	
	Gratuity	Pension	Gratuity	Pension
Salary Escalation #	7%-10%	7%-10%	7%-9%	7%-9%
Discount rate	9.1%	9.1%/9.4%*	8.1%	8.1%/8.4%*
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.

* 9.4% for unfunded pension schemes. (previous year : 8.4%)

f) Experience adjustments

(Rs '000)

	For the year ended 31 March				
	2014	2013	2012	2011	2010
Gratuity					
Defined benefit obligation	807,290	822,454	754,515	767,047	702,062
Fair value of plan assets	912,627	837,291	780,564	703,576	553,242
Unrecognised Past service Costs	–	–	(24,957)	(60,307)	(95,657)
Net (surplus)/deficit	<u>(105,337)</u>	<u>(14,837)</u>	<u>(51,006)</u>	<u>3,164</u>	<u>53,163</u>
Experience gain/(loss) on plan liabilities	3,320	4,028	11,449	18,066	65,112
Experience gain/(loss) on plan assets	<u>(33,116)</u>	<u>24,707</u>	<u>(16,528)</u>	<u>(2,136)</u>	<u>(6,244)</u>
Pension					
Defined benefit obligation	2,687,788	2,584,242	1,515,409	1,479,128	1,345,757
Fair value of plan assets	1,706,098	1,662,440	1,541,174	1,512,918	1,440,081
Effect of limit on plan surplus	–	–	–	–	–
Net deficit/(surplus)	<u>981,690</u>	<u>921,802</u>	<u>(25,765)</u>	<u>(33,790)</u>	<u>(94,324)</u>
Experience gain/(loss) on plan liabilities	(83,933)	(132,442)	(59,572)	(88,713)	34,685
Experience gain/(loss) on plan assets	<u>(54,783)</u>	<u>44,552</u>	<u>(12,808)</u>	<u>(2,360)</u>	<u>(29,543)</u>

g) Defined contribution plan

The Bank has recognised an amount of Rs. 247 million as an expense for the defined contribution plan of provident fund (previous year: Rs. 247 million) and Rs.7 million towards defined contribution plan of pension fund (previous year: Rs. 6 million).

5.8 Segment Reporting

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. 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, servicing retail customers and offering personal banking products. This segment includes 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 Banking.

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.



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5 Notes to accounts (Continued)

5.8 Segment Reporting (Continued)

Other Banking Business includes 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.

Segment revenues stated below are aggregate of Schedule 13 – Interest income and Schedule 14 – Other income and after considering the net fund transfer pricing adjustment. Treasury gives notional interest benefit to other divisions for the funds mobilised by the latter through deposits, and similarly charges notional interest to other divisions for the funds utilised by them for lending and investment purposes. Based on tenor of assets/ liabilities and market scenarios, Treasury calculates notional interest rates used for this purpose. Expense of these segments comprises interest expense on deposits, infrastructure cost for the branch network, personnel costs, other direct overheads and allocated expenses.

(Rs '000)

Business Segments	Treasury	Retail Banking	Corporate Banking	Other Banking Business	Total
Particulars	For the year ended 31 March 2014				
Segment Revenue	16,271,966	25,303,533	47,264,225	1,028,774	89,868,498
Segment Result	9,480,023	1,905,856	17,731,250	(822,493)	28,294,636
Unallocated expenses					(1,433,446)
Extraordinary items					–
Profit before taxes					26,861,190
Income taxes					(11,958,040)
Net profit					14,903,150
	As at 31 March 2014				
Other information					
Segment assets	837,746,617	109,105,508	345,677,833	13,412,825	1,305,942,783
Unallocated assets					12,862,228
Total assets					1,318,805,011
Segment liabilities	359,186,259	321,323,134	466,330,073	8,074,178	1,154,913,644
Unallocated liabilities					1,433,446
Total net assets					162,457,921

(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	10,934,669	907,831,924
Unallocated liabilities					1,914,755
Total net assets					151,957,791

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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5 Notes to accounts (Continued)

5.8 Segment Reporting (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 – BancoMultipló, HSBC Global Operations Company 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, HSBC Bank Mauritius Limited, HSBC Bank Australia Ltd, HSBC Bank Argentina S.A., HSBC Bank Egypt S.A.E., HSBC Bank Kazakhstan, HSBC Bank International Limited, HSBC France, HSBC Bank USA, N.A., HSBC Bank Canada, The 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 Bank (RR) Moscow, HSBC Software Development (Malaysia) Sdn Bhd, HSBC Software Dev (Guangdong)Ltd, HSBC Markets (Asia) Limited.

HSBC Securities and Capital Markets (India) Private Limited, HSBC Asset Management (India) Private Limited, HSBC Professional Services (India) Private Limited, HSBC Electronic Data Processing India Private Limited, HSBC 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 Bank of Commerce Insurance Company Limited.

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 2014	31 March 2013	31 March 2014	31 March 2013
Interest Paid	–	–	736,082	840,733
Interest Received	–	–	34	622
Rendering of Services	–	–	249,874	336,214
Receiving of Services	1,433,446	1,914,755	2,066,212	1,545,008



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Schedule 18 – Significant accounting policies and notes to accounts (Continued)

5 Notes to accounts (Continued)

5.9 Related parties (Continued)

d) Key management personnel and subsidiaries (Continued)

(Rs '000)

	Branch offices	
	31 March 2014	31 March 2013
Interest Paid	415,163	329,450
Interest Received	9,223	4,659
Rendering of Services	47,816	90,361
Receiving of Services	4,263,299	3,531,899

Balances with related parties are as follows:

(Rs '000)

Parent	As at	Maximum ¹	As at	Maximum
	31 March 2014	during the year 2014	31 March 2013	during the year 2013
Borrowings	–	–	–	–
Deposit	–	–	–	–
Placement of deposits	–	–	–	–
Advances	–	–	–	–
Nostro balances	–	–	–	–
Other liabilities	1,433,446	1,914,755	1,914,755	1,914,755
Non Funded Commitments	–	–	–	–

(Rs '000)

Branch offices	As at	Maximum ¹ during	As at	Maximum during
	31 March 2014	the year 2014	31 March 2013	the year 2013
Borrowings	60,076,805	96,543,979	69,712,949	82,480,287
Deposit/other liability	1,008,537	4,337,435	1,372,345	2,947,315
Placement of deposits/other asset	32,961,026	37,878,477	9,593,917	19,663,355
Advances	–	–	–	–
Nostro balances	1,448,107	7,393,088	1,886,045	2,082,978
Positive MTMs	4,531,506	7,223,580	5,983,724	12,229,883
Negative MTMs	10,718,232	17,875,034	12,771,206	14,057,722
Derivative notionals	376,433,359	512,683,569	376,212,813	485,665,566
Non Funded Commitments	7,201,285	7,729,332	6,027,900	6,946,725

(Rs '000)

Fellow Subsidiaries	As at	Maximum ¹ during	As at	Maximum during
	31 March 2014	the year 2014	31 March 2013	the year 2013
Borrowings	–	4,938,750	–	–
Deposit/other liability	18,209,314	88,294,512	17,348,374	36,464,074
Placement of deposits/other asset	7,025	275,294	17,647	1,447,000
Advances	–	–	–	–
Nostro balances	1,012,792	121,846,298	7,548,535	13,159,309
Positive MTMs	11,902,378	24,786,778	19,585,517	39,507,868
Negative MTMs	17,993,074	32,572,339	25,999,181	36,924,691
Derivative notionals	693,074,025	1,023,221,596	816,985,690	1,036,261,185
Investments	100	100	100	100
Non Funded Commitments	11,077,836	24,698,995	19,674,284	30,002,165

¹ Disclosure of maximum balances has been enhanced and presented based on comparison of the total outstanding daily balances during the financial year ended 31 March 2014. The maximum balances during the year ended 31 March 2013 are based on comparison of total outstanding balances at each month end.



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Schedule 18 – Significant accounting policies and notes to accounts (Continued)

5 Notes to accounts (Continued)

5.9 Related parties (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 paid:

Payment of interest to The Hongkong and Shanghai Banking Corporation Limited, Hong Kong Branch Rs. 414,365 (previous year: Rs. 328,363), HSBC Software Development (India) Private Limited Rs. 430,811 (previous year: Rs. 412,973) and HSBC Bank Oman SAOG Rs. 125,934 (previous year: Rs. 3,070).

Interest received:

Interest received from The Hongkong and Shanghai Banking Corporation Limited, Hong Kong Branch Rs. 9,223 (previous year: Rs. 4,659).

Rendering of services:

Income from HSBC InvestDirect Securities (India) Limited Rs. 56,264 (previous year: Rs. 112,240), HSBC Securities and Capital Markets (India) Private Limited Rs. 74,320 (previous year: Rs. 77,865), The Hongkong and Shanghai Banking Corporation Limited, Hong Kong Branch Rs. 45,858 (previous year: Rs. 82,533) and HSBC Electronic Data Processing India Private Limited Rs. 40,402 (previous year: Rs. 22,604).

Receiving of services:

Expenses for receiving of services from The Hongkong and Shanghai Banking Corporation Limited, Hong Kong Branch Rs. 4,094,438 (previous year: Rs. 3,528,998), HSBC Electronic Data Processing India Private Limited Rs. 1,546,925 (previous year: Rs. 1,178,503) and The Hongkong and Shanghai Banking Corporation Limited, (Head Office) Rs. 1,433,446 (previous year: Rs. 1,914,755).

Borrowings:

The Hongkong and Shanghai Banking Corporation Limited, Hong Kong Branch Rs. 60,076,805 (previous year: Rs. 69,712,949).

Placement of deposits/other asset:

The Hongkong and Shanghai Banking Corporation Limited, Hong Kong Branch Rs. 32,961,026 (previous year: Rs. 9,593,764).

Nostrors:

The Hongkong and Shanghai Banking Corporation Limited, Hong Kong Branch Rs. 783,632 (previous year: Rs. 1,314,513), HSBC Bank plc Rs. 937,133 (previous year: Rs. Nil) and The Hongkong and Shanghai Banking Corporation Limited, Japan Branch Rs. 489,825 (previous year: Rs. 461,675).

Deposits/other liability:

HSBC Software Development (India) Private Limited Rs. 6,544,706 (previous year: Rs. 9,324,798), HSBC Electronic Data Processing India Private Limited Rs. 4,817,849 (previous year: Rs. 4,378,037) and HSBC Bank USA, N.A. Rs. 2,795,534 (previous year: Rs. 40,035).

Non Funded Commitments:

HSBC France Rs. 2,665,018 (previous year: Rs. 2,554,649), The Hongkong and Shanghai Banking Corporation Limited, Seoul Branch Rs. 3,723,841 (previous year: Rs. 3,633,983) and HSBC Bank plc Rs. 3,248,424 (previous year: Rs. 1,604,399).

Derivative Notionals:

HSBC Markets (Asia) Limited Rs. 186,269,205 (previous year: Rs. 232,338,714), The Hongkong and Shanghai Banking Corporation Limited, Hong Kong Branch Rs. 175,438,700 (previous year: Rs. 122,661,707), HSBC Bank plc Rs. 538,768,605 (previous year: Rs. 593,050,247) and HSBC Bank USA, N.A. Rs. 140,177,403 (previous year: Rs. 153,847,164).

Positive MTM:

HSBC Markets (Asia) Limited Rs. 3,555,350 (previous year Rs. 4,842,452), HSBC Bank plc Rs. 9,609,738 (previous year Rs. 15,907,624) and HSBC Bank USA, N.A. Rs. 2,135,755 (previous year Rs. 2,967,785).

Negative MTM:

HSBC Markets (Asia) Limited Rs. 8,292,577 (previous year Rs. 10,969,764), HSBC Bank plc Rs. 12,632,801 (previous year Rs. 17,730,181) and HSBC Bank USA, N.A. Rs. 5,146,294 (previous year Rs. 7,608,634).



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Schedule 18 – Significant accounting policies and notes to accounts (Continued)

5 Notes to accounts (Continued)

5.10 Deferred taxes

There was a deferred tax charge Rs.214 million (previous year deferred tax credit: Rs. 355 million) for the year ended 31 March 2014 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)

	As at 31 March 2014	As at 31 March 2013
Deferred tax assets		
Provision for doubtful advances	4,495,218	4,628,712
VRS and severance	23,547	7,663
Bonus, leave encashment	471,442	409,645
Others	1,150,859	1,234,259
Deferred tax assets	<u>6,141,066</u>	<u>6,280,279</u>
Deferred tax liability (for specific reserve)	<u>(489,255)</u>	<u>(414,428)</u>
Net Deferred Tax Asset	<u>5,651,811</u>	<u>5,865,851</u>

5.11 Operating leases

Total lease rental of Rs.1,149 million (previous year: Rs. 970 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 2014	As at 31 March 2013
Not later than one year	691,764	226,276
Later than one year and no later than five years	610,793	233,738
Later than five years	–	–
Total	<u>1,302,557</u>	<u>460,014</u>

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 2014		For year ended 31 March 2013	
	Reward points	Other provisions	Reward points	Other provisions
Opening balance at the beginning of the period	227,298	200,676	184,215	335,822
Add: Provision/ (release) made during the period (Note 5.6.c)	188,494	(27,026)	158,775	71,632
Less: Utilisation, write back of excess provisions during the period	(139,139)	(101,134)	(115,692)	(206,778)
Closing balance at the end of the period	<u>276,653</u>	<u>72,516</u>	<u>227,298</u>	<u>200,676</u>

Note: Other provisions represent provision made for legal cases, overdue receivables, impaired non financial 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.

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,



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Schedule 18 – Significant accounting policies and notes to accounts (Continued)

5 Notes to accounts (Continued)

5.12 Provisions and contingencies (continued)

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.

Other items for which the Bank is contingently liable

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

5.13 Letters of comfort

The Bank has not issued any letters of comfort during the year ended 31 March 2014 and 31 March 2013.

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 2014 and 31 March 2013.

5.17 Disclosure of Complaints

Customer Complaints

	For the year ended 31 March 2014	For the year ended 31 March 2013
No. of complaints pending at the beginning of the year	226	143
No. of complaints received during the year	19,387	11,868
No. of complaints redressed during the year	19,159	11,785
No. of complaints pending at the end of the year	454	226

Awards Passed By Banking Ombudsman

	For the year ended 31 March 2014	For the year ended 31 March 2013
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	–	–

5.18 Prior period comparatives

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

For **BSR & Co. LLP**

Chartered Accountants

Firm's Registration No: 101248W

For The Hongkong and Shanghai Banking Corporation Limited

Sd/-
Akeel Master
Partner
Membership No: 046768

Sd/-
Sheryl Slater
Chief Financial Officer

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

Mumbai
20 June 2014



The Hongkong and Shanghai Banking Corporation Limited – India Branches

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Basel III – Pillar 3 disclosures of India Branches for the period 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 for stand-alone financials. 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 in all subsidiaries not included in the consolidation*

The aggregate amount of capital held by the Bank in HSBC Agency (India) Private Limited of Rs. 0.2 million is not included in the consolidation and is deducted from capital.

(ii) *Bank's total interest in insurance entities*

The Bank has no interest in any of the insurance entities of the Group.

(iii) *List of Group entities in India not considered for consolidation both under the accounting and regulatory scope of consolidation:*

(Rs '000)

Name of Entity /Country of Incorporation	Principle activity of the entity	Total balance sheet equity*	Total balance sheet assets*
HSBC Asset Management (India) Private Limited	Asset management/ portfolio management	542,000	1,246,878
HSBC Securities and Capital Markets (India) Private Limited	Stock broking and corporate finance & advisory	Equity - 4,701,139 Preference - 250,000	6,842,520
HSBC Electronic Data Processing (India) Private Limited	Back office/data processing/ call centre activities	3,554,678	21,478,100
HSBC Professional Services (India) Private Limited	Providing internal audit services to Group companies	4,838,000	147,297
HSBC Software Development (India) Private Limited	Software design, development and maintenance	327,260	24,251,887
HSBC Bank Oman S.A.O.G, India branch	Banking branch	Omani Riyals 200.031 million (INR equivalent 28,570,000)	2,319,100
Canara HSBC Oriental Bank of Commerce Life Insurance Company Limited	Life insurance	9,500,000	89,672,353
HSBC Global Shared Services (India) Private Limited	Non-operating company	25,000	47,195
HSBC InvestDirect (India) Limited (HIDL)	Holding company for HIDL Group.	712,712	4,958,243
HSBC InvestDirect Financial Services (India) Limited	Non-banking Finance company.	1,462,847	4,609,192
HSBC InvestDirect Securities (India) Limited.	Retail securities broking and related activities (Discontinued).	Equity - 575,112 0.001% Compulsory Convertible Preference shares - 870,000	283,900
HSBC InvestDirect Academy for Insurance and Finance Limited	Non-operating company	20,000	45,318
HSBC InvestDirect Distribution Services (India) Limited	Non-operating company	100,000	47,792
HSBC InvestDirect Employees' Welfare Trust	Non-operating company	15	30,778
HSBC InvestDirect Sales & Marketing (India) Limited	Non-operating company	50,000	34,950

* As stated in the unaudited accounting balance sheet of the legal entity as at 31 March 2014

Note 1: The Bank does not hold any stake in the total equity of the entities mentioned above with the exception of HSBC Professional Services (India) Private Limited.

Note 2: Since the Bank does not hold any stake in the total equity of the entities, the same have not been considered for any regulatory treatment.



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Basel III – Pillar 3 disclosures of India Branches for the period ended 31 March 2014 (Continued)

2 Capital Structure

(i) *Composition of Tier 1 capital*

(Rs '000)

	As at 31 March 2014	As at 31 March 2013*
Capital	44,991,660	44,991,660
Eligible Reserves	95,113,300	83,085,063
Less: Deductions from Tier I Capital	(6,966,924)	(7,271,808)
– Intangible Assets (Deferred Tax Asset)	(5,651,811)	(5,865,852)
– Investment in subsidiaries in India	(200)	(100)
– Debit Value Adjustments (DVA) (note 1)	(1,209,976)	(1,370,242)
– Defined Benefit Pension Fund Asset	(104,937)	–
– Charge for credit Enhancement on Securitisation deal	–	(35,614)
Tier I Capital	133,138,036	120,804,915
Common Equity Tier I Capital	133,138,036	–
Additional Tier I Capital	–	–
Total Tier I Capital	133,138,036	120,804,915

*as per Basel-II Capital Adequacy Framework.

Note 1: In line with the Master Circular – Basel-III Capital Regulations dated 1 July 2013 the Bank has deducted DVA from Tier 1 capital (Refer para 5.6 (aa) of the financial statements).

(ii) *Tier 2 capital*

(Rs '000)

	As at 31 March 2014	As at 31 March 2013*
Property revaluation reserves	3,591,373	3,395,054
General Loss Provisions/Other Eligible Reserves	8,714,420	7,411,676
Less: Deductions from Tier II Capital	–	(35,714)
– Charge for credit Enhancement on Securitisation deal	–	(35,614)
– Investment in subsidiaries in India	–	(100)
Total Tier II Capital	12,305,793	10,771,016

*as per Basel-II Capital Adequacy Framework.

(iii) *Debt capital instruments in Tier 2 capital*

No debt capital instruments are included in Tier 2 capital.

(iv) *Subordinated debt in Tier 2 capital*

There is no amount outstanding in respect of subordinated debt as at 31 March 2014.

(v) *Other deductions from capital*

There are no other deductions from capital.

(vi) *Total eligible capital*

The total eligible capital is Rs.145,444 million (previous year Rs.131,576 million).

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 became effective from 1 April 2013 except for those relating to the Credit Valuation Adjustment (CVA) risk capital charge for over the counter derivatives. These rules are effective from 1 April 2014.

We continue to monitor developments and believe that our current robust capital adequacy position means we are well placed for continuing compliance with the Basel III framework.

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



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Basel III – Pillar 3 disclosures of India Branches for the period ended 31 March 2014 (Continued)

3 Capital Adequacy (Continued)

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

(Rs '000)

	As at 31 March 2014	As at 31 March 2013*
I. Capital required for Credit Risk	56,014,841	50,451,863
– For portfolios subject to Standardised approach	56,014,841	50,451,863
II. Capital required for Market Risk (Standard Duration Approach)	10,977,916	10,592,069
– Interest rate risk	9,710,132	9,778,262
– Foreign exchange risk	720,000	405,000
– Equity risk	92,607	75,251
– Securitisation exposure	455,177	333,556
III. Capital required for Operational Risk (Basic Indicator Approach)	8,402,010	8,217,768
Total capital requirement (I + II + III)	75,394,767	69,261,700
Total capital funds of the Bank	145,443,829	131,575,931
Total risk weighted assets	837,719,638	769,574,433
Consolidated total capital ratio	17.36%	17.10%
Consolidated Common Equity Tier I Capital Ratio	15.89%	–
Consolidated Tier I capital ratio	15.89%	15.70%

*as per Basel-II Capital Adequacy Framework

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 for particular sectors and the minimum criteria that must be met by new customers.
- Constitute a Risk Management Committee (RMC) consisting of senior executives, which reviews overall portfolio risks and key risks facing the Bank in India.
- Undertake independent review and objective assessment of the credit risk. All commercial non-bank credit facilities originated are subject to review prior to the facilities being committed to customers.
- Control exposures to banks and other financial institutions. The Group's credit and settlement risk limits to counterparties in the finance and government sectors are designed to optimise the use of credit availability and avoid excessive risk concentration.



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Basel III – Pillar 3 disclosures of India Branches for the period ended 31 March 2014 (Continued)

4 Credit risk: (Continued)

a. General (Continued)

Strategy and Processes (Continued)

- Manage exposures to debt securities by establishing controls in respect of the liquidity of securities held for trading and setting issuer limits for financial investments. Separate portfolio limits are established for asset-backed securities and similar instruments.
- Control cross-border exposures to manage country and cross-border risk through the imposition of country limits with sub-limits by maturity and type of business.
- Maintain and develop HSBC's risk rating framework and systems in order to classify exposures meaningfully and facilitate focused management of the risks involved. Rating methodologies are based upon a wide range of financial analytics together with market data-based tools, which are core inputs to the assessment of customer risk. For larger facilities, while full use is made of automated risk rating processes, the ultimate responsibility for setting risk ratings rests with the final approving executive. Risk grades are reviewed frequently and amendments, where necessary, are implemented promptly.

Structure and Organisation

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

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

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

The Bank manages and directs credit risk management systems initiatives. HSBC has constructed a 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 its 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, the 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 (CARE);
- b) CRISIL Limited;
- c) India Ratings and Research Private Limited (FITCH);
- d) ICRA Limited; and
- e) Brickwork Ratings India Private Limited.

The Bank used the ratings issued by the ECAIs (for both long term and short term facilities) to risk weight both funded as well as non-funded exposures to corporate customers.



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Basel III – Pillar 3 disclosures of India Branches for the period ended 31 March 2014 (Continued)

4 Credit risk: (Continued)

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

The process used by the Bank to transfer public issue ratings onto comparable assets in the banking book is in line with RBI's Prudential Guidelines on Capital Adequacy and Market Discipline issued on 1 July 2013.

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

Risk weight mapping of long term corporate ratings

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

Risk weight mapping of short term corporate ratings

Short Term Ratings				Risk weights
CARE	CRISIL	FITCH	ICRA	
CARE A1	CRISIL A1	FITCH A1	ICRA A1	30%
CARE A2	CRISIL A2	FITCH A2	ICRA A2	50%
CARE A3	CRISIL A3	FITCH A3	ICRA A3	100%
CARE A4	CRISIL A4	FITCH A4	ICRA A4	150%
CARE D	CRISIL D	FITCH D	ICRA D	150%
Unrated	Unrated	Unrated	Unrated	100%

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

Capital to Risk weighted Assets Ratio (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 ECAs 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 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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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 1 April 2011, 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, as per the Bank's Risk Valuation Policy, in some cases where real estate is held as a security, dual valuations are initiated in order to have the benefit of a second opinion on the mortgaged property. The disbursement 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.

An in-house Property Price Index (PPI) has been developed which is used to measure the actual LVR of the properties financed by the Bank. The methodology for PPI development has been approved by Risk and refreshed every 6 months. 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. For a corporate guarantee to be recognised as a credit risk mitigant for the purposes of capital adequacy calculation, the guarantee provider must have a credit rating equivalent to AA- or better from an ECAI recognised by the RBI.

Information about (Market or Credit) Risk Concentrations within the mitigation taken

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

The total exposure (including non-funded post Credit Conversion Factors) that is covered by eligible financial collateral, after the application of haircuts is Rs. 43,862 million (previous year: Rs.55,671 million).



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4 Credit risk: (Continued)

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

(i) *Total gross credit risk exposures by geography*

(Rs '000)

	Fund based ^{Note 1}	Non fund based ^{Note 2}	As at 31 March 2014 Total
Overseas	–	–	–
Domestic	626,820,012	530,924,905	1,157,744,917
Total	626,820,012	530,924,905	1,157,744,917

(Rs '000)

	Fund based ^{Note 1}	Non fund based ^{Note 2}	As at 31 March 2013 Total
Overseas	–	–	–
Domestic	496,590,420	533,666,546	1,030,256,966
Total	496,590,420	533,666,546	1,030,256,966

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) *Industry type distribution of exposures as at 31 March 2014*

(Rs '000)

Industry	Fund based	Non Fund based	Total
Mining and Quarrying	–	592,219	592,219
Food Processing	7,166,329	4,080,949	11,247,278
Beverages and Tobacco	1,443,817	38,412	1,482,229
Textiles	4,430,526	5,200,716	9,631,242
Leather and Leather products	43,131	32	43,163
Wood and Wood Products	–	565	565
Paper and Paper Products	6,937,180	1,204,085	8,141,265
Petroleum	22,485	11,637,090	11,659,575
Chemicals and Chemical Products	53,157,080	46,945,501	100,102,581
Rubber, Plastic and their Products	5,411,112	2,814,362	8,225,474
Glass & Glassware	2,414,309	1,618,488	4,032,797
Cement and Cement Products	8,101,780	4,069,889	12,171,669
Basic Metal and Metal Products	13,130,743	29,928,595	43,059,338
All Engineering	20,706,336	37,039,899	57,746,235
Vehicles and Transport Equipments	18,131,013	17,209,725	35,340,738
Gems and Jewellery	323,799	4,103	327,902
Construction	25,783,080	2,475,520	28,258,600
Infrastructure	34,468,893	55,555,447	90,024,340
NBFCs and trading	49,508,700	14,613,859	64,122,559
Banking and finance	115,748,789	208,912,298	324,661,087
Computer Software	249,070	30,303,258	30,552,328
Other Industries	175,173,533	49,479,726	224,653,259
Retail	84,468,307	7,200,167	91,668,474
Total	626,820,012	530,924,905	1,157,744,917



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Basel III – Pillar 3 disclosures of India Branches for the period ended 31 March 2014 (Continued)

4 Credit risk: (Continued)

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

(iii) *Residual contractual maturity breakdown of total assets*

(Rs'000)

	As at 31 March 2014	As at 31 March 2013
1 day	169,405,748	182,075,082
2 to 7 days	132,108,081	67,210,185
8 to 14 days	32,654,762	34,902,246
15 to 28 days	85,341,701	82,799,770
29 days & up to 3 months	146,500,610	142,103,759
Over 3 months and up to 6 months	157,893,897	126,665,709
Over 6 months and up to 1 year	137,861,655	91,792,411
Over 1 year and up to 3 years	163,098,971	110,566,499
Over 3 years and up to 5 years	87,690,306	77,039,956
Over 5 years	206,249,280	146,548,851
Total	1,318,805,011	1,061,704,468

(iv) *Amount of Non-Performing Assets (NPAs) (Gross)*

(Rs'000)

	As at 31 March 2014	As at 31 March 2013
Substandard	1,344,363	2,064,562
Doubtful 1	1,307,884	1,153,174
Doubtful 2	1,894,634	1,290,459
Doubtful 3	1,441,758	1,160,753
Loss	734,879	739,375
Total	6,723,518	6,408,323

(v) *Net NPA*

The net NPA is Rs.1,098 million (previous year: Rs.1,190 million). Please see table (vii) below.

(vi) *NPA ratios*

	As at 31 March 2014	As at 31 March 2013
Gross NPAs to gross advances	1.65%	1.76%
Net NPAs to net advances	0.27%	0.33%

(vii) *Movement of NPAs*

(Rs'000)

	As at 31 March 2014		
	Gross NPA's	Provision	Net NPA
Opening balance as at 1 April 2013	6,408,323	5,218,153	1,190,170
Additions during the period	3,057,972	894,115	2,163,857
Reductions during the period	(2,742,777)	(487,072)	(2,255,705)
Closing balance as at 31 March 2014	<u>6,723,518</u>	<u>5,625,196</u>	<u>1,098,332</u>

(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	2,004,595	1,300,943	703,652
Reductions during the period	(2,797,376)	(1,080,459)	(1,716,917)
Closing balance as at 31 March 2013	<u>6,408,323</u>	<u>5,218,153</u>	<u>1,190,170</u>



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Basel III – Pillar 3 disclosures of India Branches for the period ended 31 March 2014 (Continued)

4 Credit risk: (Continued)

(viii) *Non-performing investments*

Non-performing investments as at 31 March 2014 are Rs. 3 (previous year Rs.6). This represents 3 preference share investments which have each been written down to Re.1 (Previous year included 3 equity share investments and 3 preference share investments which had each been written down to Re.1).

(ix) *Movement of provisions for depreciation on investments*

(Rs'000)

	As at 31 March 2014	As at 31 March 2013
Opening balance	1,097,728	3,518,087
Provisions during the year	–	–
Write offs during the year	–	–
Write back of excess provisions during the year	(435,327)	(2,838,308)
MTM on hedging swaps reclassified as trading swaps as at 31 March	–	417,949
Closing balance	662,401	1,097,728

(x) *Exposure under various risk buckets (post Credit Risk Mitigants)*

(Rs'000)

	As at 31 March 2014	As at 31 March 2013
Below 100% risk weight	885,887,305	667,009,876
100% risk weight	380,758,220	436,558,268
Above 100% risk weight	60,268,969	54,177,458
Deductions*	(6,966,924)	(7,307,521)
Total	1,319,947,570	1150,438,081

* Deduction represents amounts deducted from Tier I Capital

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 for 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 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 III – Pillar 3 disclosures of India Branches for the period ended 31 March 2014 (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 an 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 deduction 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 ECAI’s 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*

(Rs’000)

	As at 31 March 2014	As at 31 March 2013
Total number of loan assets securitised during the year	–	–
Total book value of loan assets securitised during the year	–	–
Sale consideration received for the securitised assets	–	–
Gain on sale on account of securitisation during the year	–	–
Gain on securitisation recognised in Income Statement	1,243	1,762
The unamortised gain as at 31 March	976	2,219
Outstanding value of services provided by way of Credit Enhancement	40,025	40,025

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

(ii) *Securitisation of impaired/past due assets*

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



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4 Credit risk: (Continued)

c. Securitisation: disclosure for standardised approach (Continued)

(iv) Securitisation exposures retained or purchased

The Bank has made investments in Pass Through Certificates (PTCs) of Rs. 24,975 million as at 31 March 2014 (previous year: Rs.18,791 million). The portfolio consists of Commercial Vehicle Loans 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, 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 management of market risk exposure in derivatives is principally undertaken in Markets, where the majority of value at risk (VaR) of the Bank and almost all trading VaR resides, using approved risk limits. Limits are set for portfolios, products and risk types, with market liquidity being a primary factor in determining the level of limits set. Group Risk, an independent unit within the Bank, is responsible for our market risk management policies and measurement techniques.

The Bank has an independent market risk management and control function which is responsible for measuring market risk exposures in accordance with the policies defined by Risk, and monitoring and reporting these exposures against the prescribed limits on a daily basis.

Scope and nature of risk measurement, reporting and monitoring

The Bank's derivative activities give rise to open positions in portfolios of derivatives. These positions are managed constantly to ensure that they remain within acceptable risk levels. Derivatives market risk arises from interest rates, foreign exchange, and credit spreads within Global Banking and Markets.

The Bank employs a range of tools to monitor and limit market risk exposures. These include sensitivity analysis, value at risk ('VaR'), stressed VaR and stress testing.

While VaR provides a measure of the market risk in the Bank, sensitivity analysis (e.g. Present Value of 1 basis point (PV01)) and VaR are more commonly utilised for the management of the business units. Stress testing and stressed VaR complement these measures with estimates of potential losses arising from market turmoil. Market risk is managed and controlled through approved limits.

Our VaR and stressed VaR models are predominantly based on historical simulation. VaR measures are calculated to a 99% confidence level and use a one-day holding period, whereas stressed VaR uses a 10-day holding period. The accuracy of our VaR models is routinely validated by back-testing the actual daily profit and loss results, adjusted to remove non-modelled items such as fees and commissions, against the corresponding VaR numbers.

Limits are proposed by the Head of Treasury and are endorsed by local Chief Risk Officer (CRO) and Chief Executive Officer (CEO) before submission to Group Risk for approval. Upon approval of country limits, they are delegated by entity's CEO to Head of Treasury, who delegates it downward within his team.



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5 Market risk in trading book (Continued)

These limits are monitored daily by the Bank's Global Markets Product Control Department through system reports and advised to senior management on an ongoing basis.

(i) *Capital requirements for market risk*

(Rs'000)

Standardised Duration Approach	As at 31 March 2014	As at 31 March 2013
Interest rate risk	9,710,132	9,778,262
Foreign exchange risk	720,000	405,000
Equity risk	92,607	75,251
Securitisation exposure	455,177	333,556
Capital requirements for market risk	10,977,916	10,592,069

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 Risk Management Committee (RMC) of the Bank, a sub-committee of INM Executive Committee (EXCO), 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 a '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 provide 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 in a high level standard, supplemented by more detailed formal guidance. This explains how the Bank manages operational risk by identifying, assessing, monitoring, controlling and mitigating the risk, rectifying operational risk events, and implementing any additional procedures required for compliance with RBI requirements.

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

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

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.



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7 Interest rate risk in the banking book (IRRBB)

Interest rate risk in non-trading portfolios arises principally from mismatches between the future yield on assets and their funding cost as a result of interest rate changes.

Asset, Liability & Capital Management ('ALCM') is responsible for measuring and controlling non-trading interest rate risk under the supervision of the Asset and Liability Management Committee (ALCO).

Its primary responsibilities are

- To define the rules governing the transfer of interest rate risk from the commercial bank to Balance Sheet Management ('BSM');
- To ensure that all market interest rate risk that can be hedged is effectively transferred from the global businesses to BSM; and
- To define the rules and metrics for monitoring the residual interest rate risk in the global businesses.

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.

The different type of non-trading interest rate risk and controls which the Group uses to quantify and limit its exposure to these risks are categorized as follows:

- Risk transferred to BSM and managed by BSM within a defined risk mandate.
- Risk which remains outside BSM because it cannot be hedged or which arises due to behaviouralised transfer pricing assumptions.
- Basis risk which is transferred to BSM when it can be hedged.
- Model risks not captured by above.

Structure and Organisation

The Bank has an independent market risk management and control function 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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7 Interest rate risk in the banking book (IRRBB) (Continued)

(i) *Sensitivity to upward shocks*

(Rs '000)

	As at 31 March 2014	As at 31 March 2013
IRRBB: Sensitivity to upwards 100 bps movement in interest rates by currency		
INR	(2,799,015)	(1,707,669)
USD	(23,268)	(49,490)
EUR	1,700	878
Other FCY	4,080	(3,954)
Total	(2,816,503)	(1,760,235)

(ii) *Sensitivity to downward shocks*

(Rs '000)

	As at 31 March 2014	As at 31 March 2013
IRRBB: Sensitivity to downwards 100 bps movement in interest rates by currency		
INR	(1,236,645)	(2,241,299)
USD	(32,090)	(90,565)
EUR	(165)	(132)
Other FCY	(4,265)	(20,304)
Total	(1,273,165)	(2,352,300)

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 '000)

	Commercial Banking	ALCO Pool	Treasury	Sub-total	Intersegment Elimination	As at 31 March 2014
+100 Bps	1,501,156	673,391	(194,435)	1,980,112	941,867	2,921,979
-100 Bps	(1,485,650)	(660,450)	856,028	(1,290,072)	(1,239,766)	(2,529,838)

(Rs '000)

	Commercial Banking	ALCO Pool	Treasury	Sub-total	Intersegment Elimination	As at 31 March 2013
+100 Bps	1,878,604	381,375	(303,135)	1,956,844	(887,905)	1,068,939
-100 Bps	(1,914,476)	(346,139)	227,100	(2,033,515)	695,756	(1,337,760)

*Ramp Movements in Yield Curve**

(Rs '000)

	Commercial Banking	ALCO Pool	Treasury	Sub-total	Intersegment Elimination	As at 31 March 2014
+100 Bps	915,990	380,797	(179,327)	1,117,460	630,535	1,747,995
-100 Bps	(856,185)	(367,856)	510,134	(713,907)	(789,654)	(1,503,561)

(Rs '000)

	Commercial Banking	ALCO Pool	Treasury	Sub-total	Intersegment Elimination	As at 31 March 2013
+100 Bps	1,140,674	207,432	(130,733)	1,217,373	(578,078)	639,295
-100 Bps	(1,052,443)	(172,196)	(24,266)	(1,200,373)	487,924	(712,449)

* 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.



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8 Counterparty Credit Risk

Methodology used to assign economic capital and credit limits for counterparty credit exposures

Counterparty credit risk arising from over-the-counter (OTC) derivatives is calculated in both the trading and non-trading books, and is the risk that a counterparty to a transaction may default before completing the satisfactory settlement of the transaction on any foreign exchange, interest rates, or equity contracts. An economic loss occurs if the transaction or portfolio of transactions with the counterparty has a positive economic value at the time of default.

As per the Master Circular - Prudential Guidelines on Capital Adequacy and Market Discipline - New Capital Adequacy Framework (NCAF) of RBI dated 1 July 2013, banks are expected to use the standardised method for computation of counterparty credit exposure using the Current Exposure Method (CEM) for market related off balance sheet exposures. Under this method the exposure on all the derivative contracts is calculated as the sum of current credit exposure/replacement cost i.e. the sum of the positive mark-to-market (MTM) of the contracts (negative MTMs are to be ignored) and the potential future exposure (PFE). PFE is determined based on a set percentage multiplied by the notional of the deal. The percentage by which the notional is multiplied is dependent upon the type of the product and the tenor as prescribed in RBI guidelines. PFE so obtained is added to the gross positive replacement cost to arrive at the final exposure at default.

Bilateral netting of counterparty credit exposures, in derivative contracts, i.e. bilateral netting of MTM values arising on account of such derivative contracts is not permitted. Accordingly, only gross positive MTM value of such contracts is considered for the purposes of exposure computation for capital adequacy.

The Group assesses total economic capital requirements centrally for the risk by utilising the embedded operational infrastructure used for the Pillar 1 capital calculation.

Limits for counterparty credit risk exposures are assigned within the overall credit process for distinct customer limit approval. The measure used for counterparty credit risk management – both limits and utilizations – is the 95th percentile of potential future exposure.

Policies for securing collateral and establishing credit reserves

Despite these being a standard credit mitigant for OTC derivatives across the Globe, market practice in this respect is still evolving in India. The bank has executed a few Credit Support Annexes (CSA's) and is currently negotiating with some more counterparties.

The credit valuation adjustment (CVA) is an adjustment to the value of OTC derivative transaction contracts to reflect, within fair value, the possibility that the counterparty may default or migrate to a lower credit grade, and we may not receive the full market value of the transactions. We calculate a separate CVA for each counterparty to which we have exposure. The adjustment aims to calculate the potential loss arising from the portfolio of derivative transactions against each third party, based upon a modeled expected positive exposure profile, including allowance for credit risk mitigants such as netting agreements and CSA's.

The bank computes a CVA for its markets related off balance sheet exposures and takes it to the profit and loss account for financial reporting purposes. The same will be implemented for capital adequacy purposes under Basel III in expectation with RBI Guidelines for the computation to be done for quarter ending June 2014.

Wrong-way Risk exposures

Wrong-way risk is a form of concentration risk and arises when there is a strong correlation between the counterparty's Probability of Default (PD) and the MTM value of the underlying transaction. We use a range of procedures to monitor and control wrong-way risk, including requiring prior approval before undertaking wrong-way risk transactions outside pre-agreed guidelines.

Impact of Credit Rating Downgrade

The Credit rating downgrade clause in an International Swaps and Derivatives Association (ISDA) Master Agreement is designed to trigger a series of events which may include the requirement to pay or increase collateral, the termination of transactions by the non-affected party, or assignment by the affected party, if the credit rating of the affected party falls below a specified level. At the Group level, we assess additional collateral requirements where credit ratings downgrade language affects the threshold levels within a collateral agreement.



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8 Counterparty Credit Risk (Continued)

Quantitative Disclosures

(Rs '000)

Particulars	As at 31 March 2014
Gross positive fair value of contracts	154,598,250
Netting benefits	–
Netted current credit exposure, Collateral held	154,598,250
Net derivatives credit exposure	–
Potential Future Exposure (PFE)	154,598,250
Measures for exposure at default, or exposure amount, under CEM.	158,129,723
Notional value of credit derivative hedges	312,727,973
Distribution of current credit exposure by types of credit exposure	–
Current credit exposure – Interest Rates	227,812,030
Current credit exposure – Forex	84,915,943

9 Basel-III common disclosure template

Rs. Million

Basel III common disclosure template to be used during the transition of regulatory adjustments (i.e. from April 1, 2013 to December 31, 2017)	Basel-III Amounts	Amounts subject to pre-Basel III treatment
Common Equity Tier 1 capital: instruments and reserves		
1 Directly issued qualifying common share capital plus related stock surplus (share premium)	44,992	–
2 Retained earnings (<i>incl. Statutory Reserves, Capital Reserves and Remittable Surplus retained for Capital to Risk-weighted Assets Ratio (CRAR)</i>)	95,113	–
3 Accumulated other comprehensive income (and other reserves)	–	–
4 Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	–	–
Public sector capital injections grandfathered until 1 January 2018		
5 Common share capital issued by subsidiaries and held by third parties (amount allowed in Group CET1)	–	–
6 Common Equity Tier 1 capital before regulatory adjustments	140,105	–
Common Equity Tier 1 capital: regulatory adjustments		
7 Prudential valuation adjustments	–	–
8 Goodwill (net of related tax liability)	–	–
9 Intangibles other than mortgage-servicing rights (net of related tax liability)	–	–
10 Deferred tax assets	5,652	–
11 Cash-flow hedge reserve	–	–
12 Shortfall of provisions to expected losses	–	–
13 Securitisation gain on sale	–	–
14 Gains and losses due to changes in own credit risk on fair valued liabilities	1,210	–
15 Defined-benefit pension fund net assets	105	–
16 Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	–	–
17 Reciprocal cross-holdings in common equity	–	–



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	Basel-III Amounts	Amounts subject to pre-Basel III treatment
18 Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	–	–
19 Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	–	–
20 Mortgage servicing rights (amount above 10% threshold)	–	–
21 Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	–	–
22 Amount exceeding the 15% threshold	–	–
23 of which: significant investments in the common stock of financial entities	–	–
24 of which: mortgage servicing rights	–	–
25 of which: deferred tax assets arising from temporary differences	–	–
26 National specific regulatory adjustments ⁷ (26a+26b+26c+26d)	–	–
26a of which: Investments in the equity capital of the unconsolidated insurance subsidiaries	–	–
26b of which: Investments in the equity capital of unconsolidated non-financial subsidiaries ⁸	–	–
26c of which: Shortfall in the equity capital of majority owned financial entities which have not been consolidated with the bank ⁹	–	–
26d of which: Unamortised pension funds expenditures	–	–
27 Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	–	–
28 Total regulatory adjustments to Common equity Tier 1	6,967	–
29 Common Equity Tier 1 capital (CET1)	133,138	–
Additional Tier 1 capital: instruments	–	–
30 Directly issued qualifying Additional Tier 1 instruments plus related stock surplus (31+32)	–	–
31 of which: classified as equity under applicable accounting standards (Perpetual Non-Cumulative Preference Shares)	–	–
32 of which: classified as liabilities under applicable accounting standards (Perpetual debt Instruments)	–	–
33 Directly issued capital instruments subject to phase out from Additional Tier 1	–	–
34 Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in Group AT1)	–	–
35 of which: instruments issued by subsidiaries subject to phase out	–	–
36 Additional Tier 1 capital before regulatory adjustments	–	–
Additional Tier 1 capital regulatory adjustments	–	–
37 Investments in own Additional Tier 1 instruments	–	–
38 Reciprocal cross-holdings in Additional Tier 1 instruments	–	–
39 Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	–	–
40 Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	–	–



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	Basel-III Amounts	Amounts subject to pre-Basel III treatment
41 National specific regulatory adjustments (41a+41b)	–	–
41a Investments in the Additional Tier 1 capital of unconsolidated insurance subsidiaries	–	–
41b Shortfall in the Additional Tier 1 capital of majority owned financial entities which have not been consolidated with the bank	–	–
42 Regulatory Adjustments Applied to Additional Tier 1 in respect of Amounts Subject to Pre-Basel III Treatment	–	–
43 Total regulatory adjustments to Additional Tier 1 capital	–	–
44 Additional Tier 1 capital (AT1)	–	–
44a Additional Tier 1 capital reckoned for capital adequacy¹¹	–	–
45 Tier 1 capital (T1 = CET1 + AT1) (29 + 44a)	133,138	–
Tier 2 capital: instruments and provisions	–	–
46 Directly issued qualifying Tier 2 instruments plus related stock surplus	–	–
47 Directly issued capital instruments subject to phase out from Tier 2	–	–
48 Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in Group Tier 2)	–	–
49 of which: instruments issued by subsidiaries subject to phase out	–	–
50 Provisions (<i>incl. eligible reserves</i>)	12,306	–
51 Tier 2 capital before regulatory adjustments	12,306	–
Tier 2 capital: regulatory adjustments	–	–
52 Investments in own Tier 2 instruments	–	–
53 Reciprocal cross-holdings in Tier 2 instruments	–	–
54 Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	–	–
55 Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	–	–
56 National specific regulatory adjustments (56a+56b)	–	–
56a of which: Investments in the Tier 2 capital of unconsolidated subsidiaries	–	–
56b of which: Shortfall in the Tier 2 capital of majority owned financial entities which have not been consolidated with the bank	–	–
Regulatory Adjustments Applied To Tier 2 in respect of Amounts Subject to Pre-Basel III Treatment	–	–
of which:	–	–
of which:	–	–
57 Total regulatory adjustments to Tier 2 capital	–	–
58 Tier 2 capital (T2)	12,306	–
58a Tier 2 capital reckoned for capital adequacy	12,306	–
58b Excess Additional Tier 1 capital reckoned as Tier 2 capital	–	–
58c Total Tier 2 capital admissible for capital adequacy (58a + 58b)	12,306	–
59 Total capital (TC = T1 + T2) (45 + 58c)	145,444	–
Risk Weighted Assets in respect of Amounts Subject to Pre-Basel III Treatment	–	–
of which:	–	–
of which:	–	–



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	Basel-III Amounts	Amounts subject to pre-Basel III treatment
60 Total risk weighted assets (60a + 60b + 60c)	837,720	–
60a of which: total credit risk weighted assets	622,387	–
60b of which: total market risk weighted assets	121,977	–
60c of which: total operational risk weighted assets	93,356	–
Capital ratios	–	–
61 Common Equity Tier 1 (as a percentage of risk weighted assets)	15.89%	–
62 Tier 1 (as a percentage of risk weighted assets)	15.89%	–
63 Total capital (as a percentage of risk weighted assets)	17.36%	–
64 Institution specific buffer requirement (minimum CET1 requirement plus capital conservation and countercyclical buffer requirements, expressed as a percentage of risk weighted assets)	–	–
65 of which: capital conservation buffer requirement	–	–
66 of which: bank specific countercyclical buffer requirement	–	–
67 of which: G-SIB buffer requirement	–	–
68 Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	–	–
National minima (if different from Basel III)	–	–
69 National Common Equity Tier 1 minimum ratio (if different from Basel III minimum)	–	–
70 National Tier 1 minimum ratio (if different from Basel III minimum)	–	–
71 National total capital minimum ratio (if different from Basel III minimum)	–	–
Amounts below the thresholds for deduction (before risk weighting)	–	–
72 Non-significant investments in the capital of other financial entities	–	–
73 Significant investments in the common stock of financial entities	–	–
74 Mortgage servicing rights (net of related tax liability)	–	–
75 Deferred tax assets arising from temporary differences (net of related tax liability)	–	–
Applicable caps on the inclusion of provisions in Tier 2	–	–
76 Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	–	–
77 Cap on inclusion of provisions in Tier 2 under standardised approach	–	–
78 Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	–	–
79 Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	–	–
Capital instruments subject to phase-out arrangements (only applicable between March 31, 2017 and March 31, 2022)	–	–
80 Current cap on CET1 instruments subject to phase out arrangements	–	–
81 Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	–	–
82 Current cap on AT1 instruments subject to phase out arrangements	–	–
83 Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	–	–
84 Current cap on T2 instruments subject to phase out arrangements	–	–
85 Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	–	–