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

Independent Auditors' Report

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

Report on the Standalone Financial Statements

1. We have audited the accompanying standalone financial statements of The Hongkong and Shanghai Banking Corporation Limited – India Branches (the "Bank"), which comprise the Balance Sheet as at March 31, 2016, and the Profit and Loss Account and Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information, which we have signed under reference to this report.

Management's Responsibility for the Standalone Financial Statements

2. The Bank's Management is responsible for the matters stated in Section 134(5) of the Companies Act, 2013 ("the Act") with respect to preparation of these standalone financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Bank in accordance with the accounting principles generally accepted in India, including the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014 and provisions of Section 29 of the Banking Regulation Act, 1949 and circulars and guidelines issued by the Reserve Bank of India ("RBI") from time to time as applicable to the Bank. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the Bank and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, 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.

Auditors' Responsibility

3. Our responsibility is to express an opinion on these standalone financial statements based on our audit.
4. We have taken into account the provisions of the Act and the Rules made thereunder, including the accounting standards, provisions of section 29 of the Banking Regulation Act, 1949, circulars and guidelines issued by RBI as applicable to the Bank and matters which are required to be included in the audit report.
5. We conducted our audit in accordance with the Standards on Auditing specified under section 143(10) of the Act and other applicable authoritative pronouncements 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 from material misstatement.
6. An audit involves performing procedures to obtain audit evidence, about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, 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 auditors consider internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by the Bank's Management, as well as evaluating the overall presentation of the standalone financial statements.
7. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the standalone financial statements.

Opinion

8. In our opinion, and to the best of our information and according to the explanations given to us, the accompanying standalone financial statements together with the notes thereon give the information required by provisions of section 29 of the Banking Regulation Act,1949 as well as the Act and circulars and guidelines issued by the RBI , in the manner so required for banking companies and give a true and fair view in conformity with the accounting principles generally accepted in India of the state of affairs of the Bank as at March 31, 2016 and its profit and its cash flow for the year then ended.

Other Matter

9. The standalone financial statements of the Bank as at March 31, 2015 and for the year then ended were audited by another firm of chartered accountants who, vide their report dated June 18, 2015 expressed an unmodified opinion on those standalone financial statements.

Report on Other Legal and Regulatory Requirements

10. In our opinion, the Balance Sheet, Profit and Loss Account, and Cash Flow Statement dealt with by this report have been drawn up in accordance with the provisions of section 29 of the Banking Regulation Act, 1949 read with applicable provisions of section 133 of the Act read with Rule 7 of the Companies (Accounts) Rules, 2014.
11. As required sub section (3) of section 30 of the Banking Regulation Act, 1949 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 during the course of our audit, have been within the powers of the Bank; and
    c) During the course of our audit we have visited 10 branches to examine the books of accounts and other records maintained at the branch and performed other relevant audit procedures. Since the key operations of the Bank are automated with the key applications integrated to the core banking system, the audit is carried out centrally at mumbai branch as all the necessary records and data required for the purposes of our audit are available therein.
12. Further, as required by section 143(3) of the Act, we further report that:
    a) We have sought and obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit;
    b) In our opinion, proper books of account as required by law have been kept by the Bank so far as it appears from our examination of those books;
    c) 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;
    d) In our opinion, the aforesaid standalone financial statements comply with the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014 to the extent they are not inconsistent with the accounting policies prescribed by RBI;
    e) The requirements of Section 164(2) of the Companies Act, 2013 are not applicable to the Bank considering it is a branch of The Hongkong and Shanghai Banking Corporation Limited, which is incorporated and registered in Hongkong Special Administrative Region with limited liability.
    f) With respect to the adequacy of the internal financial controls over financial reporting of the Bank and the operating effectiveness of such controls, refer to our separate Report in "Annexure A".
    g) With respect to the other matters to be included in the Auditors' Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014, in our opinion and to the best of our knowledge and belief and according to the information and explanations given to us:
        i. The Bank has disclosed the impact, if any, of pending litigations as at March 31, 2016 on its financial position in its standalone financial statements – Refer schedule 12 and note 5.3 in schedule 18 to the standalone financial statements;
        ii. The Bank has made provision as at March 31, 2016, as required under the applicable law or accounting standards, for material foreseeable losses, if any, on long-term contracts including derivative contracts – Refer note 5.12 in schedule 18 to the standalone financial statements;
        iii. There were no amounts which were required to be transferred to the Investor Education and Protection Fund by the Bank.

For Price Waterhouse Chartered Accountants LLP
Firm Registration Number: 012754N/N500016
Chartered Accountants

Vivek Prasad
Partner
Membership Number 104941

Mumbai
June 24, 2016

Report on the Internal Financial Controls under Clause (i) of Sub-section 3 of Section 143 of the Act

1. We have audited the internal financial controls over financial reporting of The Hongkong and Shanghai Banking Corporation Limited – India Branches (“the Bank”) as of March 31, 2016 in conjunction with our audit of the standalone financial statements of the Bank for the year ended on that date.

Management’s Responsibility for Internal Financial Controls

2. The Bank’s Management is responsible for establishing and maintaining internal financial controls based on the internal control over financial reporting criteria established by the Bank considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India (“ICAI”). These responsibilities include the design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the orderly and efficient conduct of its business, including adherence to Bank’s policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, as required under the Act.

Auditors’ Responsibility

3. Our responsibility is to express an opinion on the Bank's internal financial controls over financial reporting based on our audit. We conducted our audit in accordance with the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting (the “Guidance Note”) and the Standards on Auditing deemed to be prescribed under section 143(10) of the Act to the extent applicable to an audit of internal financial controls, both applicable to an audit of internal financial controls and both issued by the ICAI. Those Standards and the Guidance Note require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether adequate internal financial controls over financial reporting was established and maintained and if such controls operated effectively in all material respects.
4. Our audit involves performing procedures to obtain audit evidence about the adequacy of the internal financial controls system over financial reporting and their operating effectiveness. Our audit of internal financial controls over financial reporting included obtaining an understanding of internal financial controls over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. 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.
5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the Bank’s internal financial controls system over financial reporting.

Meaning of Internal Financial Controls Over Financial Reporting

6. A Bank's internal financial control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A Bank's internal financial control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Bank; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Bank are being made only in accordance with authorisations of management of the Bank; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the Bank's assets that could have a material effect on the financial statements.

Inherent Limitations of Internal Financial Controls Over Financial Reporting

7. Because of the inherent limitations of internal financial controls over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal financial controls over financial reporting to future periods are subject to the risk that the internal financial control over financial reporting may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinion

8. In our opinion, the Bank has, in all material respects, an adequate internal financial controls system over financial reporting and such internal financial controls over financial reporting were operating effectively as at March 31, 2016, based on the internal control over financial reporting criteria established by the Bank considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India.

For Price Waterhouse Chartered Accountants LLP
Firm Registration Number: 012754N/N500016
Chartered Accountants

Vivek Prasad
Partner
Membership Number 104941

Mumbai
June 24, 2016

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

Balance Sheet as at 31 March 2016

(Currency: Indian rupees in thousands)

	Schedules	**As at 31 March 2016**	As at 31 March 2015
CAPITAL AND LIABILITIES			
Capital	*1*	**44,991,660**	44,991,660
Reserves and surplus	*2*	**143,549,223**	129,846,872
Deposits	*3*	**879,438,211**	852,555,251
Borrowings	*4*	**195,223,095**	183,999,518
Other liabilities and provisions	*5*	**146,374,359**	165,152,688
TOTAL		**1,409,576,548**	1,376,545,989
ASSETS			
Cash and balances with Reserve Bank of India	*6*	**35,037,076**	42,719,323
Balances with banks and money at call and short notice	*7*	**148,574,504**	215,923,377
Investments	*8*	**534,254,728**	497,213,716
Advances	*9*	**549,702,670**	466,172,075
Fixed assets	*10*	**11,226,759**	11,662,513
Other assets	*11*	**130,780,811**	142,854,985
TOTAL		**1,409,576,548**	1,376,545,989
Contingent liabilities	*12*	**7,762,988,676**	11,660,005,710
Bills for collection		**164,985,072**	181,939,707
Significant accounting policies and notes to the Financial Statements	*18*		

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

Profit and Loss Account for the year ended 31 March 2016

(Currency: Indian rupees in thousands)

	Schedules	**For the year ended 31 March 2016**	For the year ended 31 March 2015
INCOME			
Interest earned	*13*	**84,779,541**	83,725,501
Other income	*14*	**18,302,650**	20,913,830
Total		**103,082,191**	104,639,331
EXPENDITURE			
Interest expended	*15*	**41,267,616**	43,703,248
Operating expenses	*16*	**26,999,042**	31,368,125
Provisions and contingencies	*17*	**15,474,345**	13,273,879
Total		**83,741,003**	88,345,252
Net profit for the year		**19,341,188**	16,294,079
Profit brought forward		**11,833,323**	10,819,138
Total		**31,174,511**	27,113,217
APPROPRIATIONS			
Transfer to statutory reserve		**4,835,297**	4,073,520
Transfer to Remittable Surplus retained in India for Capital to Risk-weighted Assets Ratio (CRAR) requirements		**5,916,662**	6,491,483
Transfer (from)/to investment reserve		**(38)**	281,757
Transfer to specific reserve		**181,152**	105,479
Profit Remitted to Head Office		**5,916,661**	4,327,655
Transfer to Capital Reserve - Surplus on sale of immovable properties		**1,264,940**	–
Balance carried over to balance sheet		**13,059,837**	11,833,323
Total		**31,174,511**	27,113,217
Significant accounting policies and notes to the Financial Statements	*18*		

Schedules referred to herein form an integral part of the Profit and Loss Account.

This is the Balance Sheet referred to in our report of even date.

This is the Profit and Loss account referred to in our report of even date.

For Price Waterhouse Chartered Accountants LLP
Firm's Registration No: 012754N/N500016
Chartered Accountants

For The Hongkong and Shanghai Banking Corporation Limited – India Branches

Sd/-
Vivek Prasad
Partner
Membership No: 104941

Sd/-
Massimo Villa Multedo
Chief Financial Officer

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

Mumbai
24 June 2016

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

Cash flow statement for the year ended 31 March 2016

(Currency: Indian rupees in thousands)

		For the year ended 31 March 2016	For the year ended 31 March 2015
Cash flow from operating activities			
Net profit before taxes		**33,934,603**	28,671,321
Adjustments for:			
Depreciation on fixed assets		**771,745**	357,996
Provision/(writeback) for depreciation on investments		**89**	(662,101)
Provision for advances		**620,813**	1,203,200
Other provisions		**260,028**	355,538
Profit on sale of fixed assets		**(1,278,462)**	(2,808)
		34,308,816	29,923,146
Adjustments for:			
(Increase)/decrease in investments (excluding held to maturity securities)		**(37,041,101)**	69,122,199
Increase in advances		**(84,668,556)**	(65,317,884)
Increase in deposits		**26,882,960**	135,280,183
Decrease in other assets		**12,413,717**	45,653,517
Decrease in other liabilities and provisions		**(18,521,210)**	(41,705,785)
		(100,934,190)	143,032,230
Direct taxes paid		**(14,925,437)**	(13,148,212)
Net cash (used in)/from operating activities	*(A)*	**(81,550,811)**	159,807,164
Cash flow from investing activities			
Purchase of fixed assets		**(1,282,881)**	(1,984,452)
Proceeds from sale of fixed assets		**2,495,656**	9,450
Net cash from/(used in) investing activities	*(B)*	**1,212,775**	(1,975,002)
Cash flow from financing activities			
Increase/(decrease) in borrowings (Net)		**11,223,577**	(47,531,208)
Profit remitted to Head Office		**(5,916,661)**	(4,327,655)
Net cash from/(used in) financing activities	*(C)*	**5,306,916**	(51,858,863)
Net (decrease)/increase in cash and cash equivalents	(A) + (B) + (C)	**(75,031,120)**	105,973,299
Cash and cash equivalents as at 1 April		**258,642,700**	152,669,401
Cash and cash equivalents as at 31 March		**183,611,580**	258,642,700

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 to schedule 6 and 7 of the balance sheet).
The above Cash Flow Statement has been prepared under "Indirect Method" as set out in Accounting Standard-3 "Cash Flow Statements under Section 133 of Companies Act 2013 read with Rule 7 of Companies (Accounts) Rules, 2014
This is the Cash Flow Statement referred to in our report of even date.

For Price Waterhouse Chartered Accountants LLP
Firm's Registration No: 012754N/N500016
Chartered Accountants

For The Hongkong and Shanghai Banking Corporation Limited – India Branches

Sd/-
Vivek Prasad
Partner
Membership No: 104941

Sd/-
Massimo Villa Multedo
Chief Financial Officer

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

Mumbai
24 June 2016

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

HSBC

Schedules forming part of the Balance Sheet as at 31 March 2016

(Currency: Indian rupees in thousands)

	As at 31 March 2016	As at 31 March 2015
1 Capital		
I Amount of deposit kept with the Reserve Bank of India under Section 11(2) (b) of the Banking Regulation Act,1949.	**39,283,000**	34,687,000
II Capital		
Opening balance	**44,991,660**	44,991,660
	44,991,660	44,991,660
2 Reserves and Surplus		
I Statutory Reserve		
Opening balance	**37,241,110**	33,167,590
Additions during the year	**4,835,297**	4,073,520
	42,076,407	37,241,110
II Capital Reserves – Surplus on sale of Immovable properties		
Opening balance	**1,731,524**	1,731,524
Transfer from Profit and loss account	**1,264,940**	–
Transfer from revaluation reserve	**741,482**	–
	3,737,946	1,731,524
III Capital Reserves		
Opening balance	**13,261,565**	13,261,565
	13,261,565	13,261,565
IV Remittable Surplus retained in India for Capital to Risk-weighted Assets Ratio (CRAR) requirements		
Opening balance	**53,444,104**	46,952,621
Add : Transfer from profit and loss account *(refer to schedule 18 note 5.1)*	**5,916,662**	6,491,483
	59,360,766	53,444,104
V Revaluation Reserve		
Opening balance	**8,395,016**	7,980,829
Add: Revaluation of premises net of depreciation on revaluation uplift	**277,824**	414,187
Less: Transfer to capital reserve-surplus on sale of immovable properties	**(741,482)**	–
	7,931,358	8,395,016
VI Investment Reserve		
Opening balance	**2,703,787**	2,422,030
Transfer (to)/from the Profit and Loss account	**(38)**	281,757
	2,703,749	2,703,787
VII Specific Reserve *(refer to schedule 18 note 5.4)*		
Opening balance	**1,236,443**	1,130,964
Additions during the year	**181,152**	105,479
	1,417,595	1,236,443
VIII Balance in Profit and Loss Account	**13,059,837**	11,833,323
TOTAL (I+II+III+IV+V+VI+VII+VIII)	**143,549,223**	129,846,872

	As at 31 March 2016	As at 31 March 2015
3 Deposits		
A. I. Demand Deposits		
i) From banks	**6,692,416**	6,251,398
ii) From others	**227,773,954**	179,623,567
Total i) and ii)	**234,466,370**	185,874,965
II. Savings Bank Deposits	**119,646,668**	119,440,693
III. Term Deposits		
i) From banks	**42,437,185**	37,555,300
ii) From others	**482,887,988**	509,684,293
Total i) and ii)	**525,325,173**	547,239,593
TOTAL (I+II+III)	**879,438,211**	852,555,251
B. I. Deposits of branches in India	**879,438,211**	852,555,251
II. Deposits of branches outside India	–	–
TOTAL (I+II)	**879,438,211**	852,555,251
4 Borrowings		
I Borrowings in India		
i) Reserve Bank of India	**102,390,000**	103,560,000
ii) Other banks	**277**	–
iii) Other institutions and agencies	**11,637,005**	1,148,867
iv) Subordinated debt	–	–
Total i), ii) and iii)	**114,027,282**	104,708,867
II Borrowings outside India	**81,195,813**	79,290,651
TOTAL (I+II)	**195,223,095**	183,999,518
Secured borrowings included in I above	**114,027,005**	104,708,867
5 Other liabilities and provisions		
I Bills payable	**2,453,354**	3,252,611
II Inter-office adjustments Branches in India (net)	–	–
III Interest accrued	**16,388,750**	14,681,438
IV Provision towards standard assets *(refer to schedule 18 Note 5.5 (r))*	**4,734,996**	5,252,144
V Others (including provisions)	**122,797,259**	141,966,495
TOTAL (I+II+III+IV+V)	**146,374,359**	165,152,688
6 Cash and balances with Reserve Bank of india		
I Cash in hand and in ATMs (including foreign currency notes)	**1,300,078**	1,189,924
II Balances with the Reserve Bank of India		
i) In current account	**33,736,998**	41,529,399
ii) In other accounts	–	–
Total i) and ii)	**33,736,998**	41,529,399
TOTAL (I+II)	**35,037,076**	42,719,323

HSBC

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

Schedules forming part of the Balance Sheet as at 31 March 2016

(Currency: Indian rupees in thousands)

	As at 31 March 2016	As at 31 March 2015
7 Balances with banks and Money at call and short notice		
I In India		
i) Balances with banks		
a) in current accounts	**3,215,665**	2,710,071
b) in other deposit accounts	**47,703,600**	39,687,500
Total a) and b)	**50,919,265**	42,397,571
ii) Money at call and short notice		
a) with banks	**1,300,000**	1,750,000
b) with other institutions	**17,837,664**	82,411,172
Total a) and b)	**19,137,664**	84,161,172
Total i) and ii)	**70,056,929**	126,558,743
II Outside India		
i) In current accounts	**2,655,600**	4,427,134
ii) In other deposit accounts	**–**	–
iii) Money at call and short notice	**75,861,975**	84,937,500
Total i), ii) and iii)	**78,517,575**	89,364,634
TOTAL (I+II)	**148,574,504**	215,923,377
8 Investments		
A. Investments in India in *(refer to schedule 18 note 5.5 (d))*		
i) Government securities	**424,002,299**	419,164,087
ii) Other approved securities	**–**	–
iii) Shares	**136,100**	161,103
iv) Debentures and bonds	**51,328,674**	37,598,291
v) Subsidiaries and/or joint ventures:	**111**	200
vi) Others (CDs, CPs, Pass Through Certificates etc)	**58,787,544**	40,290,035
TOTAL i), ii), iii), iv), v) and vi)	**534,254,728**	497,213,716
B. Gross value of Investments in India	**534,255,117**	497,214,016
Aggregate provision for depreciation in India	**(389)**	(300)
Net Value of Investments in India	**534,254,728**	497,213,716
9 Advances		
A. i) Bills purchased and discounted	**64,341,228**	45,505,457
ii) Cash credits, overdrafts and loans repayable on demand	**260,196,660**	231,031,569
iii) Term loans	**225,164,782**	189,635,049
TOTAL i), ii) and iii)	**549,702,670**	466,172,075
B. i) Secured by tangible assets (including advances against book debt)	**261,671,434**	233,852,638
ii) Covered by Bank/ Government guarantees	**19,389,958**	9,218,663
iii) Unsecured	**268,641,278**	223,100,774
TOTAL i), ii) and iii)	**549,702,670**	466,172,075

	As at 31 March 2016	As at 31 March 2015
CI. Advances in India		
i) Priority sectors (including export finance)	**118,925,003**	96,798,195
ii) Public sector	**7,235,737**	–
iii) Banks	**1,956,375**	–
iv) Others	**421,585,555**	369,373,880
TOTAL i), ii), iii) and iv)	**549,702,670**	466,172,075
CII. Advances ouside India	**–**	–
TOTAL CI and CII	**549,702,670**	466,172,075
10 Fixed Assets		
I Premises (including leasehold improvements) *(refer to schedule 18 note 5.2)*		
Cost at 1 April (including revaluation)	**12,503,124**	10,885,801
Additions during the year	**536,664**	1,560,530
Revaluation of premises during the year	**245,759**	414,187
Deductions during the year	**(1,470,930)**	(357,394)
	11,814,617	12,503,124
Depreciation to date	**(1,571,701)**	(1,487,382)
Net book value of Premises (including leasehold improvements)	**10,242,916**	11,015,742
II Other Fixed Assets (including furniture and fixtures)		
Cost at 1 April	**4,970,065**	5,581,311
Additions during the year	**746,217**	423,922
Deductions during the year	**(604,793)**	(1,035,168)
	5,111,489	4,970,065
Depreciation to date	**(4,127,646)**	(4,323,294)
Net book value of Other Fixed Assets (including furniture and fixtures)	**983,843**	646,771
TOTAL (I+II)	**11,226,759**	11,662,513
11 OTHER ASSETS		
I Inter-office adjustments Branches in India (net)	**–**	–
II Interest accrued	**12,019,271**	8,341,376
III Tax paid in advance/tax deducted at source (net)	**7,310,650**	6,487,005
IV Deferred tax (net) *(refer to schedule 18 note 5.10)*	**6,696,156**	7,179,569
V Stationery and stamps	**3,588**	3,393
VI Non-banking assets acquired in satisfaction of claims	**–**	–
VII Items in course of collection	**–**	–
VIII Others	**104,751,146**	120,843,642
TOTAL (I+II+III+IV+V+VI+VII)	**130,780,811**	142,854,985

Schedules forming part of the Balance Sheet as at 31 March 2016

(Currency: Indian rupees in thousands)

		As at 31 March 2016	As at 31 March 2015
12	**Contingent liabilities** *(refer to schedule 18 note 5.12)*		
I	Claims against the bank not acknowledged as debts (including tax matters) *(refer to schedule 18 note 5.3)*	**4,743,330**	4,444,371
II	Liability for partly paid investments	500	500
III	Liability on account of outstanding forward exchange and derivative contracts		
	i) Forward contracts	**2,880,625,415**	4,043,101,489
	ii) Currency options	**282,930,886**	325,557,146
	iii) Derivative contracts	**4,207,303,092**	6,879,740,786
	Total i), ii) and iii)	**7,370,859,393**	11,248,399,421
IV	Guarantees given on behalf of constituents		
	i) In India	**175,284,429**	223,038,964
	ii) Outside India	**75,594,864**	22,455,826
	Total i) and ii)	**250,879,293**	245,494,790
V	Acceptances, endorsements and other obligations	**55,376,373**	75,000,555
VI	Bills rediscounted	**–**	–
VII	Other items for which the bank is contingently liable	**81,129,787**	86,666,073
	TOTAL (I+II+III+IV+V+VI+VII)	**7,762,988,676**	11,660,005,710

Schedules forming part of the Profit and Loss Account for the year ended 31 March 2016

(Currency: Indian rupees in thousands)

		For the year ended 31 March 2016	For the year ended 31 March 2015
13	**Interest earned**		
I	Interest/discount on advances/bills	**45,187,523**	40,154,947
II	Income on investments	**36,088,011**	41,206,646
III	Interest on balances with Reserve Bank of India and other inter-bank funds	**1,517,439**	804,163
IV	Others	**1,986,568**	1,559,745
	TOTAL (I+II+III+IV)	**84,779,541**	83,725,501
14	**Other income**		
I	Commission, exchange and brokerage (net)	**7,070,666**	7,630,847
II	Profit on sale/maturity of investments (net)	**828,585**	4,076,824
III	Profit on disposal of land, buildings and other assets (net)	**1,278,462**	2,808
IV	Profit on exchange/ derivative transactions (net)	**8,866,844**	8,900,660
V	Miscellaneous income	**258,093**	302,691
	TOTAL (I+II+III+IV+V)	**18,302,650**	20,913,830
15	**Interest expended**		
I	Interest on deposits	**32,739,004**	35,239,229
II	Interest on Reserve Bank of India/inter-bank borrowings	**7,891,258**	7,924,196
III	Others	**637,354**	539,823
	TOTAL (I+II+III)	**41,267,616**	43,703,248
16	**Operating expenses**		
I	Payments to and provisions for employees	**11,057,002**	14,436,195
II	Rent, taxes and lighting	**1,654,209**	1,914,291
III	Printing and stationery	**102,068**	87,494
IV	Advertisement and publicity	**731,965**	924,631
V	Depreciation on Bank's property	**771,745**	357,996
VI	Auditors' fees and expenses	**7,000**	4,400
VII	Law charges	**146,232**	124,574
VIII	Postage, telegrams, telephones, etc.	**333,768**	351,050
IX	Repairs and maintenance	**576,168**	539,521
X	Insurance	**1,083,981**	987,255
XI	Other expenditure *(refer to schedule 18 note 5.5 (ak))*	**10,534,904**	11,640,718
	TOTAL (I+II+III+IV+V+VI+VII+VIII+IX+X+XI)	**26,999,042**	31,368,125
17	**Provisions and Contingencies** *(refer to schedule 18 note 5.5 (c))*		
I	Provision for advances	**620,813**	1,203,200
II	Other provisions	**260,028**	355,538
III	Taxation charge		
	– Current tax expense	**14,110,002**	13,905,000
	– Deferred tax charge/(credit).	**483,413**	(1,527,758)
		14,593,415	12,377,242
IV	Charge/(release) of provision for depreciation on investments *(refer to schedule 18 note 5.5 (c) and (d))*	**89**	(662,101)
	TOTAL (I+II+III+IV)	**15,474,345**	13,273,879

Schedules forming part of the Financial Statements for the year ended 31 March 2016

(Currency: Indian rupees)

Schedule 18 – Significant accounting policies and notes to accounts

1. Background

The financial statements for the year ended 31 March 2016 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') in India 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 Act, 2013 read together with Paragraph 7 of the Companies (Accounts) Rules 2014 and the relevant provisions of the Companies Act 2013 and Companies Act, 1956 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.

The Ministry of Corporate Affairs (MCA) has notified the Companies (Accounting Standards) Amendment Rules, 2016 vide its notification dated 30 March 2016. The said notification read with Rule 3(2) of the Companies (Accounting Standards) Rules, 2006 is applicable to accounting period commencing on or after the date of notification i.e. 1 April 2016.

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 Profit and Loss Account. 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 DBR No. BP.BC.6/21.04.141/2015-16 dated 1 July 2015 as follows:

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

ii) Investments classified as HTM are transferred to AFS/HFT categories as follows:

- Investments originally placed in HTM at a discount, are transferred to AFS/HFT category at the acquisition price/ book value (weighted average) and;
- Investments originally placed in HTM at a premium, are transferred to AFS/HFT category at the amortised cost (weighted average);

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

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

Repurchase (repos) and reverse repurchase (reverse repos) transactions are accounted for as collateralised borrowing and lending respectively with an agreement to repurchase on agreed terms in accordance with RBI guidelines vide master circular DBR No. BP.BC.6/21.04.141/2015-16 dated 1 July 2015. The difference between the consideration amounts of first and second leg 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.

Schedules forming part of the Financial Statements for the year ended 31 March 2016 (*Contiued)*

(Currency: Indian rupees)

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

4 Significant accounting policies ***(Continued)***

4.1 Investments (Continued)

(f) Short Sales

In accordance with the RBI guidelines, the Bank undertakes short sale transactions in Central Government dated securities. The short positions are reflected in 'Securities Short Sold ('SSS') A/c', specifically created for this purpose. Such short positions are categorised under HFT category. These positions are marked-to-market along with the other securities under HFT portfolio and the resultant mark-to-market gains/losses are accounted for as per the relevant RBI guidelines for valuation of investments as explained under point 4.1(c).

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.

Provision on standard assets is made in line with the existing RBI guidelines and included in Schedule 5 ('Other Liabilities and Provisions').

The Bank assesses the unhedged foreign currency exposure (UFCE) of corporate customers and adequate provisions are maintained as required by RBI guidelines. These provisions are part of standard asset provision mentioned above.

The sale of financial assets or Non Performing Advances (NPA) 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 Net Book Value (NBV), the excess provision is reversed.

In case the sale of NPA is to non SC/RC then same 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 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.

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.

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

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 the bank'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 (af) 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 recognised 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).

Schedules forming part of the Financial Statements for the year ended 31 March 2016 (*Contiued)*
(Currency: Indian rupees)

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

4 Significant accounting policies *(Continued)*

4.5 Securitisation (Continued)

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

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

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

Securities issued by securitisation vehicles where the Bank is an investor are accounted in line with accounting policy under 4.1 (c).

4.6 Income recognition

Interest income is recognised in the profit and loss account on an accrual basis, 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 DBR No. BP.BC 2/21.04.048/2015-16 dated 1 July 2015 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.

Dividends on equity shares are recognised as income when the right to receive dividends is established.

4.7 Employee benefits

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

(a) Provident fund

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

(b) Gratuity

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

Actuarial gains/losses for the gratuity liability are recognised in the profit and loss account.

(c) Pension

The Bank has an active pension scheme for award staff. This is defined benefit plan for employees who joined prior to 31 March 2002 and defined contribution plan for employees joined after 31 March 2002. In 2004 the bank introduced new salary terms for management staff and 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.

Actuarial gains/losses for the pension liability are recognised in the profit and loss account.

(d) Compensated absences

The Bank has a leave encashment scheme for its award staff which is a defined benefit plan. The Bank provides for the leave encashment liability based on an actuarial valuation using the projected unit credit method at the balance sheet date carried out by an independent qualified actuary.

Actuarial gains/losses for the leave encashment liability are recognised in the profit and loss account.

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 premises 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 useful life estimates prescribed in Part C of Schedule II to the Companies Act, 2013 are generally adhered to, except in respect of few asset classes where, based on management evaluation and past experience, a different estimate of useful life is considered suitable. The rates applied by the Bank on different categories of fixed assets are as follows:

Category of Asset	Useful life of Assets
Freehold land	–
Premises	50 Years
Leasehold improvements	Over 5 years or remaining period of lease whichever is lower
Computers	3 Years
Improvements at owned premises	15 Years
Other fixed assets	5 Years

Freehold land is not depreciated as it has an indefinite economic life.

Schedules forming part of the Financial Statements for the year ended 31 March 2016 (*Contiued)*
(Currency: Indian rupees)

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

4 Significant accounting policies *(Continued)*

4.8 Fixed assets (Continued)

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

4.9 Accounting for leases

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

4.10 Taxes on income

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

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

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 realized supported by convincing evidence. 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 behavioral 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. 5,916 million (previous year: Rs. 6,491 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. 278 million (previous year: Rs. 414 million) based on an independent professional valuation.

Certain premises valued at Rs. 7,958 million (previous year: Rs. 7,728 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.

During previous year end 31st March' 15 certain premises valued at Rs. 1,222 million were 'held for sale' and are valued at lower of cost or market value.

5.3 Taxation

Tax liabilities in respect of the Bank amounting to Rs. 4,307 million in respect of assessment years 1991-92 to 2012-13 (previous year Rs. 3,816 million for the assessment years 1991-92 to 2011-12) 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.

5.4 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 amounts subsequently withdrawn there from, if at all, is liable to income tax in the year in which withdrawn.

Schedules forming part of the Financial Statements for the year ended 31 March 2016 (*Contiued)*

(Currency: Indian rupees)

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

5 Notes to accounts *(Continued)*

5.5 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 at 31 March 2016	As at 31 March 2015
Tier 1 capital	**167,393,657**	144,033,377
Tier 2 capital	**7,438,746**	11,733,688
Total capital	**174,832,403**	155,767,065
Total risk weighted assets & contingents	**1,093,279,199**	1,049,336,210
Common Equity Tier 1 Capital Ratio (%)	**15.31%**	13.73%
Tier I Capital Ratio (%)	**15.31%**	13.73%
Tier II capital Ratio (%)	**0.68%**	1.11%
Total Capital Ratio (CRAR)	**15.99%**	14.84%
Amount of subordinated debt raised as Tier II capital (see note 5.5–ai)	–	–

Capital adequacy for the current year has been calculated based on the Guidelines in Master Circular – Basel III Capital Regulations, issued vide circular DBR .No. BP.BC.1/21.06.201 /2015-16 dated 1 July 2015.

(b) Business ratios/ information

The details relating to business ratios are given below:

	For the year ended 31 March 2016	For the year ended 31 March 2015
Interest income as percentage to working funds	**6.71%**	6.79%
Non-interest income as percentage to working funds	**1.45%**	1.70%
Operating profits as percentage to working funds	**2.75%**	2.40%
Return on assets	**1.53%**	1.33%
Business (deposits plus advances) per employee (Rs '000)	**295,669**	267,826
Profit per employee (Rs '000)	**4,144**	3,425

The figures have been computed in accordance with RBI guidelines vide master circular DBR.BP.BC No.23/21.04.018/2015-16 dated 1 July 2015

(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 2016	For the year ended 31 March 2015
Charge/(release) of provision for depreciation on Investment	**89**	(662,101)
Provision towards NPA (including write-offs net of recoveries)	**1,137,961**	671,160
(Release)/charge of provision towards standard assets	**(520,802)**	520,802
Provision towards country risk	**3,654**	11,238
Provision towards current tax expense	**14,110,002**	13,905,000
Charge/(credit) towards deferred tax	**483,413**	(1,527,758)
Other Provisions and Contingencies *(refer to note 5.12):*		
Provision towards reward points	**254,412**	318,269
(Release)/charge of provision towards claims under litigation	**(1,693)**	31,378
Provision for overdue income	**7,309**	5,891
Others	**–**	–
Total	**15,474,345**	13,273,879

(d) Investments

(Rs '000)

	As at 31 March 2016	As at 31 March 2015
(1) Value of investments		
(i) Gross value of investments	**534,255,117**	497,214,016
(a) In India	**534,255,117**	497,214,016
(b) Outside India	**–**	–
(ii) Provision for depreciation	**(389)**	(300)
(a) In India	**(389)**	(300)
(b) Outside India	**–**	–
(iii) Net value of investments	**534,254,728**	497,213,716
(a) In India	**534,254,728**	497,213,716
(b) Outside India	**–**	–

Investments include government securities representing face value of Rs. 171,371 million (Previous Year Rs. 152,539 million) deposited for settlement guarantee fund and collateralised borrowing and lending obligation (CBLO) with Clearing Corporation Of India Limited (CCIL); and for repo transaction, liquidity adjustment facility (LAF) and to meet the requirement of section 11 (2) (b) of Banking Regulation Act, 1949 with RBI.

Schedules forming part of the Financial Statements for the year ended 31 March 2016 (*Contiued)*
(Currency: Indian rupees)

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

5 Notes to accounts *(Continued)*

5.5 Statutory disclosures (Continued)

(d) Investments (Continued)

(Rs '000)

			As at 31 March 2016	As at 31 March 2015
(2)	**Movement of provisions held towards depreciation on investments**			
	(i)	Opening balance	**300**	662,401
	(ii)	Add : Provision made during the year	**89**	–
	(iii)	Less :Write back of excess provision during the year	**–**	(662,101)
	(iv)	**Closing balance**	**389**	300

The outstanding commitments relating to securities purchase and sale contracts as at 31 March 2016 are Rs. 13,922,212 (previous year: Rs. 29,097,298) and Rs. 20,561,411 (previous year: Rs. 35,411,779) respectively.

(e) Issuer wise composition of non SLR investments

(Rs '000)

				As at 31 March 16		
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	**45,830,875**	**11,013,790**	**–**	**1,000**	**1,000**
(ii)	Financial Institutions	**–**	**–**	**–**	**–**	**–**
(iii)	Banks	**7,488,551**	**4,093,195**	**–**	**–**	**–**
(iv)	Private Corporate	**56,932,892**	**47,392,380**	**–**	**135,100**	**135,100**
(v)	Subsidiaries/Joint Ventures	**500**	**500**	**–**	**500**	**500**
(vi)	Others	**–**	**–**	**–**	**–**	**–**
(vii)	Provision held towards depreciation	**(389)**	**–**	**–**	**–**	**–**
	Total	**110,252,429**	**62,499,865**	**–**	**136,600**	**136,600**

(Rs '000)

				As at 31 March 15		
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	30,289,210	9,216,675	–	1,000	1,000
(ii)	Financial Institutions	1,795,910	–	–	–	–
(iii)	Banks	–	–	–	–	–
(iv)	Private Corporate	45,964,308	41,058,732	–	160,103	160,103
(v)	Subsidiaries/Joint Ventures	500	500	–	500	500
(vi)	Others	–	–	–	–	–
(vii)	Provision held towards depreciation	(300)	–	–	–	–
	Total	78,049,628	50,275,907	–	161,603	161,603

Note: Total investments include net investments in PTC of Rs. 46,392 million (previous year: Rs. 35,659 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 extent RBI guidelines.

(f) Non-performing non SLR investments

The non-performing investments as at 31 March 2016 are Rs. 3 (previous year: Rs. 3). This represents 3 Preference share investments which have each been written down to Re. 1.

Schedules forming part of the Financial Statements for the year ended 31 March 2016 (*Contiued)*

(Currency: Indian rupees)

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

5 Notes to accounts *(Continued)*

5.5 Statutory disclosures (Continued)

(g) Repo transactions (in face value terms)

(Rs '000)

	Minimum Outstanding During the Year 2015-16	Maximum Outstanding During the Year 2015-16	Daily Average Outstanding During the Year 2015-16	Outstanding as at 31 March 2016
Securities sold under repos				
i. Government securities	**30,300**	**131,997,800**	**23,656,887**	**118,049,400**
ii. Corporate debt securities	**–**	**–**	**–**	**–**
Securities purchased under reverse repos				
i. Government securities	**50,000**	**136,578,400**	**37,651,878**	**15,270,600**
ii. Corporate debt securities	**–**	**–**	**–**	**–**

(Rs '000)

	Minimum Outstanding During the Year 2014-15	Maximum Outstanding During the Year 2014-15	Daily Average Outstanding During the Year 2014-15	Outstanding as at 31 March 2015
Securities sold under repos				
i. Government securities	281,800	163,997,600	31,402,155	107,702,400
ii. Corporate debt securities	–	–	–	–
Securities purchased under reverse repos				
i. Government securities	50,000	106,719,700	21,556,602	80,336,400
ii. Corporate debt securities	–	–	–	–

Notes:

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

(h) Movement of Gross NPAs

(Rs '000)

	For the year ended 31 March 2016	For the year ended 31 March 2015
Gross NPAs* as on 1st April	**7,914,574**	6,601,422
Additions (fresh NPAs during the year)	**3,383,758**	5,447,068
Sub-total (A)	**11,298,332**	12,048,490
Less:		
(i) Upgrades	**(1,749,572)**	(1,109,985)
(ii) Recoveries (excluding recoveries made from upgraded accounts)	**(566,649)**	(1,590,023)
(iii) Write-offs	**(624,251)**	(1,433,908)
Sub-total (B)	**(2,940,472)**	(4,133,916)
Gross NPAs as on 31st March (A-B)	**8,357,860**	7,914,574

* 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.

(i) Movements in NPAs

(Rs '000)

	For the year ended 31 March 2016			For the year ended March 2015		
	Gross NPA	**Provision**	**Net NPA**	Gross NPA	Provision	Net NPA
(a) Opening Balance	**7,914,574**	**5,533,401**	**2,381,173**	6,601,422	5,625,195	976,227
(b) Additions during the period	**3,383,758**	**1,448,979**	**1,934,779**	5,447,068	1,389,189	4,057,879
(c) Reductions during the period	**(2,940,472)**	**(737,643)**	**(2,202,829)**	(4,133,916)	(1,480,983)	(2,652,933)
(d) Closing Balance	**8,357,860**	**6,244,737**	**2,113,123**	7,914,574	5,533,401	2,381,173

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.

(j) Non-Performing Advances (NPA)

The percentage of net NPA to net advances is 0.38% as at 31 March 2016 (previous year: 0.51%).

(k) Floating Provision

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

(l) 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 74.73% as at 31 March 2016 (previous year: 69.91%).

Schedules forming part of the Financial Statements for the year ended 31 March 2016 (*Contiued)*

(Currency: Indian rupees)

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

5 Notes to accounts *(Continued)*

5.5 Statutory disclosures (Continued)

(m) Concentration of Advances

(Rs '000)

	As at 31 March 2016	As at 31 March 2015
Total Advances of twenty largest borrowers	**424,886,463**	411,810,366
Percentage of Advances of twenty largest borrowers to Total Advances of the bank	**19.62%**	20.26%

(n) Concentration of Exposures

(Rs '000)

	As at 31 March 2016	As at 31 March 2015
Total Exposure to twenty largest borrowers/ customers	**433,727,353**	414,707,920
Percentage of Exposures of twenty largest borrowers/ customers to Total Exposure of the bank on borrowers/ customers	**20.03%**	19.65%

(o) Concentration of NPAs

Total exposure to top four NPA accounts is Rs. 3,484 million (previous year Rs. 3,481 million). The exposure is computed on a gross basis.

(p) Unsecured Advances

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

(q) Sector-wise Advances

(Rs '000)

Sl. No.	Sector	As at 31 March 2016 Outstanding Total Advances	As at 31 March 2016 Gross NPAs	As at 31 March 2016 Percentage of Gross NPAs to Total Advances in that sector	As at 31 March 2015 Outstanding Total Advances	As at 31 March 2015 Gross NPAs	As at 31 March 2015 Percentage of Gross NPAs to Total Advances in that sector
A	Priority Sector						
1	Agriculture and allied activities	**12,722,906**	–	–	9,922,304	–	–
	1.1 Direct Agriculture	**2,325,000**	–	–	1,665,000	–	–
	1.2 Indirect agriculture	**10,397,906**	–	–	8,257,304	–	–
2	Advances to industries sector eligible as priority sector lending	**87,769,360**	**441,083**	**0.50**	75,039,117	581,795	0.77
	2.1 Chemicals and Chemical Products	**40,705,867**	**71,316**	**0.18**	35,089,689	67,274	0.19
	2.2 Basic Metal and Metal Products	**8,545,331**	–	–	13,522,360	–	–
	2.3 All Engineering	**10,490,687**	–	–	4,351,283	–	–
	2.4 Others	**9,543,462**	–	–	8,455,293	–	–
3	Services	**18,794,610**	**1,934,298**	**10.29**	11,839,522	1,914,500	16.11
	3.1 Computer Software	**1,457,150**	**226,300**	**15.53**	1,864,465	213,475	11.45
	3.2 Trade	**5,460,641**	**1,478,690**	**27.08**	3,514,420	1,290,701	36.28
	3.2 NBFC	**8,275,795**	**219,738**	**2.66**	5,243,449	400,409	7.64
	3.3 Professional Services	**2,416,341**	–	–	761,679	–	–
4	Personal loans	**2,028,152**	**265,024**	**13.07**	2,536,963	266,172	10.49
	4.1 Housing	**2,028,152**	**265,024**	**13.07**	2,536,963	266,172	10.49
	Sub-total (A)	**121,315,028**	**2,640,405**	**2.18**	99,337,906	2,762,467	2.78
B	Non Priority Sector						
1	Agriculture and allied activities	–	–		–	–	
2	Industry	**206,861,318**	**2,792,010**	**1.35**	178,457,759	2,930,841	1.64
	2.1 Chemicals and Chemical Products	**33,958,990**	**41,156**	**0.12**	22,399,359	57,014	0.25
	2.2 All Engineering	**23,695,177**	**104,916**	**0.44**	19,992,163	104,916	0.52
	2.3 Construction	**1,467,034**	–		20,256,861	–	
	2.4 Infrastructure	**73,082,567**	**433,947**	**0.59**	38,853,341	433,946	1.12
	2.5 Communication	**65,644,069**	–		31,722,093	–	
3	Services	**119,353,847**	**427,632**	**0.36**	97,363,206	444,084	0.46
	3.1 Professional Services	**28,207,627**	**61,999**	**0.22**	23,312,588	63,499	0.27
	3.2 Trade	**21,095,336**	**309,566**	**1.47**	23,589,039	320,860	1.36
	3.2 Commercial Real Estate	**31,463,693**	**56,067**	**0.18**	11,162,663	59,832	0.54
	3.2 NBFC	**28,044,666**	–	–	25,807,715	–	–
4	Personal loans	**108,417,214**	**2,497,813**	**2.30**	96,546,605	1,777,182	1.84
	4.1 Housing	**91,092,813**	**2,097,170**	**2.30**	80,885,857	1,317,086	1.63
	Sub-total (B)	**434,632,379**	**5,718,412**	**1.32**	372,367,570	5,152,107	1.38
	Total(A+B)	**555,947,407**	**8,357,860**	**1.50**	471,705,476	7,914,574	1.68

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

Schedules forming part of the Financial Statements for the year ended 31 March 2016 (*Contiued)*

(Currency: Indian rupees)

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

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

5.5 **Statutory disclosures** ***(Continued)***

(r) Provision towards Standard Assets

(Rs '000)

	As at 31 March 2016	As at 31 March 2015
Provision towards standard assets*	**4,407,815**	4,928,617
Provision towards country risk (Refer note 5.6 (w))	**75,727**	72,073
Accumulated surplus arising on sale of NPA	**251,454**	251,454
Total	**4,734,996**	5,252,144

* Comprises general provision towards standard assets and UFCE in accordance with RBI Master Circular DBR No. BP.BC 2/21.04.048/2015-16 dated 1 July 2015.

(s) Unhedged Foreign Currency Exposure (UFCE)

The Bank has an approved policy and rigorous process for managing the currency induced credit risk of its customers. The Bank assesses the credit risk arising out of foreign currency exposures of customers, including unhedged foreign currency exposure (UFCE), at the time of sanctioning and subsequent review of credit facilities, along with the customer's strategy for risk mitigation. The Bank also factors in the inherent risk of UFCE in credit risk rating and credit risk premium. The foreign currency exposures and UFCE are analysed on a regular basis and adequate provisioning and risk weights are maintained as required by RBI guidelines. The Bank advises its customers to ensure adequate and appropriate hedging/other risk mitigation strategies.

The Bank has to maintain incremental provisions and RWA's for UFCE of its customers as stipulated by the RBI circular 'Capital and Provisioning Requirements for Exposures to entities with Unhedged Foreign Currency Exposure' dated 15 January 2014. The Bank obtains quarterly information on UFCE from its customers and the incremental provision is computed based on relative riskiness of a customer in terms of likely loss due to forex volatility as a % of EBID (defined as PAT + Depreciation + Interest on debt + Lease Rentals). The incremental provisioning required is Rs. 1,318 million and the additional capital required is Rs. 6,586 million for UFCE as at 31 March 2016.

(t) Details of financial assets sold to Securitisation Companies (SC)/Reconstruction Companies (RC) for Asset Reconstruction

	For year ended 31 March 2016	For year ended 31 March 2015
Number of accounts	–	1
Aggregate value (net of provisions) of accounts sold to SC/RC (Rs '000)	–	–
Aggregate consideration (Rs '000)	–	112,356
Additional consideration realised in respect of accounts transferred in earlier years (Rs '000)	–	–
Aggregate (loss)/gain over net book value (Rs '000)	–	112,356

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

There has been no purchase of NPAs during the year ended 31 March 2016 (previous year Rs. Nil).

Details of NPAs sold during the year ended 31 March 2016 are provided in Schedule 18 note 5.6 (t).

(v) Details of Investment in security receipts backed by NPA's

The Bank has no such Investments.

(w) Exposures:

Exposure to real estate sector

(Rs '000)

Category	As at 31 March 2016	As at 31 March 2015
A Direct exposure	**168,853,916**	154,268,099
(i) Residential mortgages –		
Lendings fully secured by mortgages on residential property that is or will be occupied by the borrower or that is rented *	**104,932,895**	106,901,142
Of which individual housing loans eligible for inclusion in priority sector advances	**2,124,191**	2,536,963
(ii) Commercial real estate	**63,921,021**	47,366,957
(iii) Investments in Mortgage Backed Securities (MBS) and other securitised exposures –		
a. Residential	–	–
b. Commercial Real estate	–	–
B Indirect exposure	**24,033,034**	21,757,038
Fund based and non-funded based exposures on National Housing Bank (NHB) and Housing Finance Companies	**24,033,034**	21,757,038
Others	–	–
Total exposure to real estate sector (A+B)	**192,886,950**	176,025,137

* Includes undrawn limits of Rs. 13,919 million (previous year: Rs. 20,516 million) pertaining to mortgages on residential property.

Schedules forming part of the Financial Statements for the year ended 31 March 2016 (*Contiued)*

(Currency: Indian rupees)

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

5 Notes to accounts *(Continued)*

5.5 Statutory disclosures (Continued)

(w) Exposures: (Continued)

Exposure to capital market

(Rs '000)

		As at 31 March 2016	As at 31 March 2015
i.	direct investment in equity shares, convertible bonds, convertible debentures and units of equity-oriented mutual funds the corpus of which is not exclusively invested in corporate debt;	**1,700,304**	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;	**1,469**	1,976
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**	13,873
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;	**325,000**	–
v.	secured and unsecured advances to stockbrokers and guarantees issued on behalf of stockbrokers and market makers;	**9,041,626**	8,151,125
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;	**3,962,800**	18,553,140
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;	**30,000**	–
ix.	financing to stockbrokers for margin trading;	**–**	–
x.	all exposures to Venture Capital Funds (both registered and unregistered)	**–**	–
xi.	Others	**18,970,700**	12,530,500
	Total Exposure to Capital Market (i to xi)	**34,045,772**	39,266,714

(x) 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 2016***	**Provision held as at 31 March 2016**	Exposure as at 31 March 2015*	Provision held as at 31 March 2015
Insignificant	**219,436,289**	**75,727**	263,372,701	72,073
Low	**30,027,281**	**–**	22,749,453	–
Moderate	**1,933,220**	**–**	4,134,117	–
High	**767,513**	**–**	439,802	–
Very high	**101,720**	**–**	136,721	–
Restricted	**172,403**	**–**	–	–
Off-credit	**–**	**–**	–	–
Total	**252,438,426**	**75,727**	290,832,794	72,073

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

* Exposures are computed on gross basis

Schedules forming part of the Financial Statements for the year ended 31 March 2016 *(Continued)*

(Currency: Indian rupees)

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

5 Notes to accounts *(Continued)*

5.5 Statutory disclosures (Continued)

(y) Restructured accounts

A) Particulars of accounts restructured

for the year ended 31 March 2016

Rs '000

Sr No	Type of Restructuring# Asset Classification/Details		Under CDR Mechanism					Others					Total				
			Standard	Sub-Stand-	Doubtful	Loss	Total	Standard	Sub-Stand-	Doubtful	Loss	Total	Standard	Sub-Stand-	Doubtful	Loss	Total
1	Restructured accounts as on April 1 of the FY (opening figures)*	No of borrowers	–	–	4	–	4	–	3	2,242	–	2,245	–	3	2,246	–	2,249
		Amount outstanding	–	–	400,400	–	400,400	–	380	84,597	–	84,977	–	380	484,997	–	485,377
		Provision thereon	–	–	411,539	–	411,539	–	95	51,003	–	51,098	–	95	462,542	–	462,637
2	Fresh Restructuring during the year	No of borrowers	–	–	–	–	–	–	2	2	–	4	–	2	2	–	4
		Amount outstanding	–	–	–	–	–	–	91	144	–	235	–	91	144	–	235
		Provision thereon	–	–	–	–	–	–	23	144	–	167	–	23	144	–	167
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	–	–	–	–	–	–	–	(1)	1	–	–	–	(1)	1	–
		Amount outstanding	–	–	–	–	–	–	–	(59,800)	59,800	–	–	–	(59,800)	59,800	–
		Provision thereon	–	–	–	–	–	–	–	(26,200)	57,100	30,900	–	–	(26,200)	57,100	30,900
6	Write-off of restructured accounts during the FY **	No of borrowers	–	–	(1)	–	(1)	–	(4)	(1,639)	(1)	(1,644)	–	(4)	(1,640)	(1)	(1,645)
		Amount outstanding	–	–	(180,700)	–	(180,700)	–	(380)	(13,008)	(4,400)	(17,788)	–	(380)	(193,708)	(4,400)	(198,488)
		Provision thereon	–	–	(193,039)	–	(193,039)	–	(95)	(13,000)	–	(13,095)	–	(95)	(206,039)	–	(206,134)
7	Restructured accounts as on March 31 of the FY (closing figures)*	No of borrowers	–	–	3	–	3	–	1	604	–	605	–	1	607	–	608
		Amount outstanding	–	–	219,700	–	219,700	–	91	11,933	55,400	67,424	–	91	231,633	55,400	287,124
		Provision thereon	–	–	218,500	–	218,500	–	23	11,947	57,100	69,070	–	23	230,447	57,100	287,570

* 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	No of borrowers	–	–	(3)	–	(3)	–	(4)	(1,441)	(1)	(1,446)	–	–	(1,444)	(1)	(1,449)
	Amount outstanding	–	–	(23,928)	–	(23,928)	–	(380)	(9,900)	(4,400)	(14,680)	–	–	(33,828)	(4,400)	(38,609)
	Provision thereon	–	–	(36,039)	–	(36,039)	–	(95)	(9,900)	–	(9,995)	–	–	(45,939)	–	(46,034)

: There are no restructured accounts under SME restructuring mechanism

Schedules forming part of the Financial Statements for the year ended 31 March 2016 *(Continued)*

(Currency: Indian rupees)

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

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

5.5 ***Statutory disclosures (Continued)***

(y) Restructured accounts (Continued)

A) Particulars of accounts restructured

for the year ended 31 March 2015
Rs '000

Sr No	Type of Restructuring# Asset Classification/Details		Under CDR Mechanism					Others					Total				
			Standard	Sub-Stand-	Doubtful	Loss	Total	Standard	Sub-Stand-	Doubtful	Loss	Total	Standard	Sub-Stand-	Doubtful	Loss	Total
1	Restructured accounts as on April 1 of the FY (opening figures)*	No of borrowers	–	–	3	–	3	–	–	2,661	–	2,661	–	–	2,664	–	2,664
		Amount outstanding	–	–	228,551	–	228,551	–	–	92,384	–	92,384	–	–	320,935	–	320,935
		Provision t hereon	–	–	235,762	–	235,762	–	–	60,295	–	60,295	–	–	296,057	–	296,057
2	Fresh Restructuring during the year	No of borrowers	–	–	1	–	1	–	3	2	–	5	–	3	3	–	6
		Amount outstanding	–	–	178,872	–	178,872	–	380	71	–	451	–	380	178,943	–	179,323
		Provision thereon	–	–	179,462	–	179,462	–	95	71	–	166	–	95	179,533	–	179,628
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	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
6	Write-off of restructured accounts during the FY **	No of borrowers	–	–	–	–	–	–		(422)	–	(422)	–	–	(422)	–	(422)
		Amount outstanding	–	–	(7,022)	–	(7,022)	–	–	(7,858)	–	(7,858)	–	–	(14,880)	–	(14,880)
		Provision thereon	–	–	(3,685)	–	(3,685)	–	–	(9,362)	–	(9,362)	–	–	(13,047)	–	(13,047)
7	Restructured accounts as on March 31 of the FY (closing figures)*	No of borrowers	–	–	4	–	4	–	3	2,242	–	2,245	–	3	2,246	–	2,249
		Amount outstanding	–	–	400,400	–	400,400	–	380	84,597	–	84,977	–	380	484,997	–	485,377
		Provision thereon	–	–	411,539	–	411,539	–	95	51,003	–	51,098	–	95	462,542	–	462,637

* 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	No of borrowers	–	–	(3)	–	(3)	–	–	(179)	–	(179)	–	–	(182)	–	(182)
	Amount outstanding	–	–	(7,022)	–	(7,022)	–	–	(4,295)	–	(4,295)	–	–	(11,318)	–	(11,318)
	Provision thereon	–	–	(3,685)	–	(3,685)	–	–	(5,800)	–	(5,800)	–	–	(9,484)	–	(9,484)

: There are no restructured accounts under SME restructuring mechanism

Schedules forming part of the Financial Statements for the year ended 31 March 2016 (*Contiued)*

(Currency: Indian rupees)

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

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

5.5 Statutory disclosures (Continued)

(z) 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:- Microsoft India (R&D) Pvt Ltd, Vodafone India Limited, Vodafone mobile services Limited, Vodafone Group.

(aa) Intra-group exposure

(Rs '000)

Particulars	**31 March 2016**	31 March 2015
Total amount of intra-group exposures	**25,737,839**	47,107,298
Total amount of top-20 intra-group exposures	**24,155,055**	46,986,254
Percentage of intra-group exposures to total exposure of the bank on borrowers/customers	**1%**	2%
Details of break of limits on intra group exposures and regulatory action theron, if any	**NIL**	NA

The RBI issued "Guidelines on Management of Intra group Transactions & Exposure" dated 11 February 2014 which set limits for intra-group exposure at an entity level and overall intra-group exposures. During the year the bank had exceeded the entity level and overall intra-group exposure regulatory limits. As per the circular banks were required to bring down the intra-group exposures within the prudential limits by 31 March 2016. Accordingly, the Bank has brought down the exposures within the regulatory limits by 31 March 2016.

(ab) Concentration of Deposits

(Rs '000)

	As at 31 March 2016	As at 31 March 2015
Total Deposits of twenty largest depositors	195,724,368	180,807,301
Percentage of Deposits of twenty largest depositors to Total Deposits of the bank	22.25%	21.21%

(ac) Deposit Education and Awareness Fund (DEAF)

(Rs '000)

Particulars	**31 March 2016**	31 March 2015
Opening balance of amounts transferred to DEAF	**536,922**	–
Add: Amounts transferred to DEAF during the year	**115,304**	536,922
Less: Amounts reimbursed by DEAF towards claims	**11,549**	–
Closing balance of amounts transferred to DEAF	**640,677**	536,922

(ad) Securitisation of standard assets

The Bank has not securitised any standard assets in the current year (previous year- Nil).

The RBI issued addendum guidelines on securitisation of standard assets vide its circular dated 7 May 2012, subsequent to this date the Bank has not originated any securitisation transaction.

The Bank has provided credit enhancement for a deal done in 2005-06 in the form of Guarantee to the holder of the pass through certificates (PTC's). These certificates were paid off in Q2 FY15-16. The total value of credit enhancements outstanding in the books as at 31 March 2016 was NIL (previous year: Rs. 40 million).

(ae) Off Balance Sheet SPVs

The Bank has not sponsored any off-balance sheet SPVs (Previous year: Nil).

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

(Rs '000)

No.	Items	**As at 31 March 2016**	As at 31 March 2015
(i)	The notional principal of swap agreements	**3,861,012,541**	6,427,322,212
(ii)	Losses which would be incurred if counterparties failed to fulfill their obligations under the agreements	**25,182,340**	26,369,107
(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)	**86%**	87%
(v)	The fair value of the swap book	**(45,950)**	(942,463)

Schedules forming part of the Financial Statements for the year ended 31 March 2016 (*Contiued)*

(Currency: Indian rupees)

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

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

5.5 Statutory disclosures ***(Continued)***

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

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

		As at 31 March 2016		As at 31 March 2015	
Nature	Terms	**No.**	**Notional principal (Rs '000)**	No.	Notional principal (Rs '000)
Trading swaps	Receive floating pay floating	**32**	**68,541,090**	39	76,164,817
Trading swaps	Receive floating pay fixed	**2,202**	**1,943,365,957**	2,882	3,230,165,957
Trading swaps	Receive fixed pay floating	**2,635**	**1,848,801,864**	3,786	3,120,991,438
Trading swaps	Receive fixed pay fixed	**1**	**303,630**	0	0

There were no FRAs outstanding as at 31 March 2016 and 31 March 2015.

(ag) 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.

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 & organisation for management of risk in derivatives trading

The management of market risk arising from derivatives is undertaken in Markets using risk limits approved by an independent Risk function. Limits are set for portfolios, products and risk types. The level of market risk limits set for each operation depends upon the market liquidity, 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 risk appetite.

Global Risk, an independent unit within the Group, is responsible for our market risk management policies and measurement techniques. At local level, the Bank has a Market Risk Management function, independent of Markets, which is responsible for measuring market risk exposures in accordance with the Group policies, 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 employs a range of tools to monitor and limit market risk exposures. These include position limits, sensitivity analysis (pvbp limits), stop loss limit, 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.

Schedules forming part of the Financial Statements for the year ended 31 March 2016 (*Contiued)*

(Currency: Indian rupees)

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

5 Notes to accounts *(Continued)*

5.5 Statutory disclosures (Continued)

(ag) Risk exposure in derivatives (Continued)

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.

Market risk limits are proposed by the Head of Treasury and are endorsed by CRO and CEO before submission to Regional/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 on a daily basis by the Bank's Market Risk Management function through system reports and advised to senior management on an ongoing basis.

Counterparty credit risk (CCR) arises from derivative transactions and is the risk that the counterparty to a transaction may default before completing the satisfactory settlement of the transaction. The measurement of CCR takes into account the current mark-to-market value to the Bank of a derivative contract and the expected potential change in that value over time caused by movements in market rates. CCR on contracts having a negative mark-to-market value to the Bank is restricted to the expected potential change in the value.

CCR is monitored against limits approved by authorised individuals within a framework of delegated authorities. These limits represent the peak exposure or loss to which the Bank could be subjected should the counterparty fail to perform its contractual obligations. These credit limits are set based on the Bank's credit risk assessment for the counterparty which inter alia considers the ability of the counterparty to honour its obligations in the event of crystallisation of the exposure.

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 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 globally, 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 (that is, 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.

Schedules forming part of the Financial Statements for the year ended 31 March 2016 (*Contiued)*
(Currency: Indian rupees)

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

5 Notes to accounts *(Continued)*

5.5 Statutory disclosures (Continued)

(ag) ***Risk exposure in derivatives (Continued)***

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), funding fair value adjustments (FFVA) and Day 1 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. FFVA is a portfolio valuation adjustment that seeks to recognise within fair value the present value of the expected future cost or benefit of funding the uncollateralised derivative counterparty exposure over its remaining life.

Quantitative disclosure

(Rs '000)

Sr. No.	Particular	**As at 31 March 2016**		As at 31 March 2015	
		Currency Derivatives	**Interest Rate Derivatives**	Currency Derivatives	Interest Rate Derivatives
1	Derivatives (Notional Principal Amount)				
	a) for hedging*	**89,974,290**	**–**	84,875,000	–
	b) for trading	**3,399,362,229**	**3,881,522,874**	4,712,129,348	6,451,395,073
2	Marked-to-Market Position				
	a) Asset (+)	**58,211,952**	**25,586,694**	77,835,104	26,831,801
	b) Liability (-)	**67,237,495**	**25,592,763**	85,347,541	27,724,263
3	Credit Exposure #	**138,946,909**	**55,721,187**	191,218,149	71,776,593
4	Likely impact of one percentage point change in interest rate (100 x PV01)				
	a) on hedging derivatives	**–**	**–**	–	–
	b) on trading derivatives	**1,595,658**	**1,205,090**	2,473,944	2,548,913
5	Maximum and Minimum of 100 x PV01 observed during the year				
	a) on hedging				
	Maximum	**–**	**–**	–	–
	Minimum	**–**	**–**	–	–
	b) on trading				
	Maximum	**2,210,725**	**2,779,810**	2,540,288	3,862,970
	Minimum	**1,503,272**	**830,136**	2,144,430	1,847,345

* Comprise foreign currency swaps in the Banking Book entered with RBI through the swap window to mobilise 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.

(ah) Exchange traded interest rate derivatives

(Rs '000)

No.	Particulars	**31 March 2016**	31 March 2015
(i)	Notional principal amount of exchange traded interest rate derivatives undertaken during the year (instrument-wise)* 10 Yrs G Secs	**68,981,000**	88,334,800
(ii)	Notional principal amount of exchange traded interest rate derivatives outstanding	**–**	81,200
(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.

Schedules forming part of the Financial Statements for the year ended 31 March 2016 (*Contiued)*

(Currency: Indian rupees)

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

5 Notes to accounts *(Continued)*

5.5 Statutory disclosures (Continued)

(ai) Subordinated debt

There was no subordinated debt that was outstanding at any point of time during the year ended 31 March 2016 (Previous year: Rs. Nil).

(aj) Penalties imposed by RBI

There was a penalty of INR 75,600 imposed by RBI towards the securities pay-in shortage encountered by HSBC in Jan16 (Previous year: Nil)

(ak) Operating Expenses – other expenditure

"Other expenditure" includes the following:

(Rs '000)

	For the year ended 31 March 2016	For the year ended 31 March 2015
Head office costs allocated	**1,670,797**	1,693,465
Services contracted out	**5,953,061**	6,837,170

(al) 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 2016	31 March 2015
Principal amount remaining unpaid to any registered supplier as at the year end	**1,424**	5,328
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	–	-

(am) 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 2016

(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	**3,119,504**	**26,565,935**	**28,248,948**	**65,536,310**	**95,854,899**	**64,852,212**	**103,294,979**	**28,749,491**	**33,539,159**	**99,941,233**	**549,702,670**
Investments	**179,248,327**	**50,864,537**	**55,484,097**	**51,487,633**	**20,376,880**	**30,698,089**	**18,124,782**	**33,289,243**	**12,036,038**	**82,645,102**	**534,254,728**
Deposits	**28,212,342**	**134,577,693**	**33,593,199**	**57,627,411**	**108,430,058**	**24,796,032**	**148,147,589**	**49,474,748**	**290,777,114**	**3,802,025**	**879,438,211**
Borrowings	**41,265,345**	**39,390,000**	**45,000,000**	-	-	-	-	**69,567,750**	–	–	**195,223,095**
Foreign Currency Assets	**79,637,021**	**19,581,752**	**10,999,384**	**25,213,582**	**30,682,466**	**41,598,515**	**4,796,037**	**14,761,310**	**16,374,770**	**11,065,995**	**254,710,832**
Foreign Currency Liabilities	**14,853,285**	**2,923,558**	**794,034**	**774,376**	**7,286,244**	**4,008,863**	**101,051,871**	**87,780,148**	**41,294,910**	**14,029,575**	**274,796,864**

As at 31 March 2015

(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	6,738,769	17,023,317	28,081,468	33,718,290	62,629,499	67,269,978	37,915,465	54,735,090	52,213,889	105,846,310	466,172,075
Investments	119,241,511	9,575,899	7,389,651	53,594,908	36,580,835	73,807,679	85,464,524	34,124,252	8,279,020	69,155,437	497,213,716
Deposits	29,125,832	125,963,336	41,088,399	59,641,211	109,208,200	19,762,529	89,260,823	118,646,957	259,853,151	4,813	852,555,251
Borrowings	16,299,084	99,695,000	1,562,500	13,562,500	46,562,500	6,285,623	-	32,311	-	-	183,999,518
Foreign Currency Assets	94,551,702	694,820	8,688,038	11,316,330	23,510,467	52,413,283	27,784,037	15,488,512	12,512,690	18,214,624	265,174,503
Foreign Currency Liabilities	12,225,771	4,027,992	1,448,692	9,857,811	9,016,639	22,441,338	63,943,052	111,721,574	29,582,284	17,224,146	281,489,299

Schedules forming part of the Financial Statements for the year ended 31 March 2016 (*Contiued)*

(Currency: Indian rupees)

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

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

5.5 Statutory disclosures (Continued)

(an) Bancassurance income

During the year, the Bank earned an amount of Rs. 1,193 million towards bancassurance income (previous year: Rs. 1,242 million)

(Rs '000)

Nature of Income	For the year ended 31 March 2016	For the year ended 31 March 2015
For selling life insurance products	**171,170**	156,887
For selling non life insurance products	**2,597**	75
For selling mutual fund products	**1,019,557**	1,085,300
Total	**1,193,324**	1,242,262

(ao) Overseas Assets, NPAs and Revenue

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

(ap) Liquidity Coverage Ratio

Qualitative disclosure

The Liquidity Coverage Ratio (LCR) promotes the short term resilience of banks to potential liquidity disruptions by ensuring that they have sufficient unencumbered High Quality Liquid Assets (HQLAs) (which can be converted readily into cash) to survive in an acute scenario lasting for 30 days, by which time it is assumed that appropriate corrective action would be taken.

The LCR requirement is binding for banks from 1 January 2015; with the minimum requirement being 60% for the calendar year 2015, and rising in equal steps to reach the minimum required level of 100% by 1 January 2019. Against this, the Bank has maintained an average LCR ratio as of 168% for the financial year ending March 2016 (based on the monthly average LCR for the period April 2015 to March 2016) which remains well above the minimum requirement. The significant drivers to the LCR for the Bank are provided below:

a) Composition of HQLA

Level 1 assets for the Bank comprise 91% of the total average HQLAs for the period April 2015 to March 2016. Approximately 94% of the Level 1 assets are in the form of Government securities. This includes the regulatory dispensation allowed up to 10% of Net Demand and Time Liabilities in the form of borrowing limit available through Marginal Stable Facility (MSF) and Facility to Avail Liquidity for LCR (FALLCR).

Level 2 assets are further divided as Level 2A and Level 2B. For the Bank, Level 2A assets consist of bonds issued by Public Sector Entities that are assigned a 20% risk weight under the Basel II Standardised Approach for credit risk. For the period April 2015 to March 2016, the Bank held investments in papers that qualified as Level 2A assets with a haircut of 15% and which constituted approximately 9% of the total HQLAs, well below the maximum cap of 40%. Further, during the period, there were no investments in assets that qualify as Level 2B.

b) Concentration of funding sources

The purpose of monitoring the funding sources is to ensure that there is no significant source, the withdrawal of which could trigger liquidity problems. The Bank relies on the customer deposits as the primary source of stable funds. The level of customer deposits continues to exceed the level of loans to customers. The positive funding gap is predominantly deployed in Level 1 assets resulting in a large amount of HQLA for the Bank under the internal Liquidity and Funding Risk Management Framework. Apart from customer deposits, the Bank receives foreign currency funding from Hongkong branch to support foreign currency trade advances. The deposit mix is of stable retail deposits and wholesale deposits in line with the overall strategy of the bank.

Liquidity management and governance

The Bank's liquidity and funding management activities are centralised and managed by the Balance Sheet Management (BSM) team, a part of Global Markets (GM). The framework and policy around the liquidity and funding management is driven through the Asset, Liability and Capital Management (ALCM) function, which acts independent of GM and reports in to the Finance function. The liquidity risk management policies are approved by the Asset and Liability Management Committee (ALCO). The Bank has in place its internal framework for monitoring of the balance sheet on a daily basis against the prescribed internal limits. The Bank also maintains a Contingency Funding Plan, which outlines the actions to be taken to meet any liquidity crisis scenarios that may emerge.

Quantitative disclosure

INR million

Sr. No.	Particulars	Three months ended 31 March 2016		Three months ended 31 December 2015		Three months ended 30 September 2015		Three months ended 30 June 2015		Three months ended 31 March 2015	
		Unweighted Value (average)	Total Weighted Value (average)	Unweighted Value (average)	Total Weighted Value (average)	Unweighted Value (average)	Total Weighted Value (average)	Unweighted Value (average)	Total Weighted Value (average)	Unweighted Value (average)	Weighted Value Value (average)
	High Quality Liquid Assets										
1	Total high quality liquid assets	**NA**	**318,787**	NA	334,536	NA	270,130	NA	319,537	NA	339,158
	Cash Outflows										
2.	Retail deposits and deposits from small business customers, of which:	**318,089**	**30,850**	320,098	30,993	316,772	30,645	315,703	30,465	312,685	29,556
	(i) Stable Deposits	**19,184**	**959**	20,334	1,017	20,640	1,032	22,113	1,106	34,249	1,712
	(ii) Less Stable Deposits	**298,905**	**29,891**	299,764	29,976	296,132	29,613	293,590	29,359	278,436	27,844

Schedules forming part of the Financial Statements for the year ended 31 March 2016 (*Contiued)*

(Currency: Indian rupees)

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

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

5.5 Statutory disclosures (Continued)

(ap) Liquidity Coverage Ratio (Continued)

Quantitative disclosure ***(Continued)***

Sr. No.	Particulars	**Three months ended 31 March 2016**		Three months ended 31 December 2015		Three months ended 30 September 2015		Three months ended 30 June 2015		Three months ended 31 March 2015	
		Unweighted Value (average)	**Total Weighted Value (average)**	Unweighted Value (average)	Total Weighted Value (average)	Unweighted Value (average)	Total Weighted Value (average)	Unweighted Value (average)	Total Weighted Value (average)	Unweighted Value (average)	Total Weighted Value average)
3.	**Unsecured wholesale funding, of which:**	**553,794**	**222,708**	525,435	233,650	510,940	238,917	460,156	242,670	460,744	239,784
	(i) Operational deposits (all counterparties)	**125,808**	**31,452**	90,893	22,720	29,084	7,271	28,363	7,091	28,291	7,073
	(ii) Non-operational deposits (all counterparties)	**427,987**	**191,256**	434,542	210,930	481,856	231,646	431,793	235,579	332,901	133,161
	(iii) Unsecured debt	**–**	**–**	–	–	–	–	–	–	99,551	99,551
4.	**Secured wholesale funding**	**NA**	**–**	NA	–	NA	–	NA	–	NA	–
5.	**Additional requirements, of which**	**95,804**	**12,297**	105,938	12,562	99,521	13,434	164,081	78,760	955,599	853,801
	(i) Outflows related to derivative exposures and other collateral requirements	**666**	**666**	252	252	709	709	65,811	65,811	840,963	840,963
	(ii) Outflows related to loss of funding on debt products	**–**	**–**	–	–	–	–	–	–	–	–
	(iii) Credit and liquidity facilities	**95,138**	**11,631**	105,686	12,310	98,813	12,725	98,269	12,949	114,636	12,838
6.	**Other contractual funding obligations**	–	**–**	**–**	–	–	–	–	–	–	–
7.	**Other contingent funding obligations**	**878,864**	**41,902**	682,849	34,142	768,134	38,407	941,585	47,079	993,797	49,690
8.	**TOTAL CASH OUTFLOWS**	**NA**	**307,756**	**NA**	**311,347**	**NA**	**321,403**	**NA**	**398,974**	**NA**	**1,172,832**
Cash Inflows											
9.	Secured Lending (e.g. reverse repo)	**32,991**	**–**	56,901	–	56,154	–	17,337	–	56,600	–
10.	Inflows from fully performing exposures	**82,334**	**41,167**	82,715	41,357	89,032	44,516	123,282	61,641	154,424	77,212
11.	Other cash inflows	**83,520**	**83,520**	73,369	73,369	90,310	90,310	163,291	163,291	938,607	938,607
12.	**TOTAL CASH INFLOWS**	**198,845**	**124,687**	**212,985**	**114,727**	**235,496**	**134,826**	**303,910**	**224,932**	**1,149,631**	**1,015,819**
13.	**Total HQLA**	**NA**	**318,787**	**NA**	**334,536**	**NA**	**270,130**	**NA**	**319,537**	**NA**	**339,158**
14.	Total net cash outflows	**NA**	**183,069**	NA	196,621	NA	186,577	NA	174,042	NA	293,308
15.	**Liquidty Coverage Ratio (%)**	**NA**	**174.1%**	**NA**	**170.1%**	**NA**	**144.8%**	**NA**	**183.6%**	**NA**	**115.6%**

5.6 Employee benefits

a) Summary

(Rs ‘000)

	As at 31 March 2016		As at 31 March 2015	
	Gratuity	**Pension**	**Gratuity**	**Pension**
Defined benefit obligation	**988,032**	**4,930,944**	918,734	6,530,778
Fair value of plan assets	**905,961**	**1,974,755**	973,132	1,794,104
Deficit/(surplus)	**82,071**	**2,956,189**	(54,398)	4,736,674
Net Deficit/(surplus)	**82,071**	**2,956,189**	(54,398)	4,736,674

The pension liability includes a liability in respect of the unfunded plans of Rs. 338 million (previous year: Rs. 348 million). The majority of the plan assets are invested in government securities, corporate bonds and special deposit schemes.

b) Changes in present value of defined benefit obligations

(Rs ‘000)

	For the year ended 31 March 2016		For the year ended 31 March 2015	
	Gratuity	**Pension**	**Gratuity**	**Pension**
Opening balance	**918,734**	**6,530,778**	807,290	2,687,788
Current service cost	**62,952**	**285,824**	60,763	103,154
Interest cost	**69,401**	**518,266**	68,040	241,019
Curtailment credit	**–**	**(818,831)**	–	–
Benefits paid	**(102,453)**	**(104,912)**	(119,201)	(98,113)
Actuarial loss/(gain) recognised during the year	**39,398**	**(1,480,181)**	101,842	3,596,930
Closing Balance	**988,032**	**4,930,944**	918,734	6,530,778

Schedules forming part of the Financial Statements for the year ended 31 March 2016 (*Contiued*)
(Currency: Indian rupees)

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

5 Notes to accounts *(Continued)*

5.6 Employee benefits (Continued)

c) Changes in the fair value of plan assets

(Rs '000)

	For the year ended 31 March 2016		For the year ended 31 March 2015	
	Gratuity	**Pension**	**Gratuity**	**Pension**
Opening balance	**973,132**	**1,794,104**	912,627	1,706,098
Expected return on plan assets	**73,752**	**140,576**	68,242	133,846
Contributions by the bank	**–**	**–**	–	–
Benefits paid	**(102,453)**	**(73,813)**	(119,201)	(66,049)
Actuarial (loss)/gain recognised during the year	**(38,470)**	**113,888**	111,464	20,209
Closing Balance	**905,961**	**1,974,755**	973,132	1,794,104
Actual return on plan assets	**35,282**	**254,464**	179,706	154,055

Based on actuarial valuation report expected contribution of the Bank is Rs. 82 million to the gratuity plan assets and Rs. 2,956 million to the pension assets for the annual period ending on 31 March 2017.

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

(Rs '000)

	For the year ended 31 March 2016		For the year ended 31 March 2015	
	Gratuity	**Pension**	**Gratuity**	**Pension**
Current service cost	**62,952**	**285,824**	60,763	103,154
Interest cost	**69,401**	**518,266**	68,040	241,019
Curtailment credit	**–**	**(818,831)**	–	–
Expected return on plan assets	**(73,752)**	**(140,576)**	(68,242)	(133,846)
Net actuarial loss/(gain) recognised during the year	**77,868**	**(1,594,069)**	(9,622)	3,576,721
	136,469	**(1,749,386)**	50,939	3,787,048

e) Key assumptions

	For the year ended 31 March 2016		For the year ended 31 March 2015	
	Gratuity	**Pension**	**Gratuity**	**Pension**
Salary Escalation #	**7%-15%**	**7%-15%**	7%-15%	7%-15%
Discount rate	**8%**	**8%-8.2%***	8%	8%
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, bipartite settlements and other relevant factors such as supply and demand in the employment market.

*(8.2% for unfunded pension schemes).

f) Experience adjustments

(Rs '000)

	For the year ended 31 March				
	2016	2015	2014	2013	2012
Gratuity					
Defined benefit obligation	**988,032**	918,734	807,290	822,454	754,515
Fair value of plan assets	**905,961**	973,132	912,627	837,291	780,564
Unrecognised Past service Costs	**–**	–	–	–	(24,957)
Net deficit/(surplus)	**82,071**	(54,398)	(105,337)	(14,837)	(51,006)
Experience loss/(gain) on plan liabilities	**(36,099)**	(29,425)	3,320	4,028	11,449
Experience gain/(loss) on plan assets	**(38,470)**	111,464	(33,116)	24,707	(16,528)
Pension					
Defined benefit obligation	**4,930,944**	6,530,778	2,687,788	2,584,242	1,515,409
Fair value of plan assets	**1,974,755**	1,794,104	1,706,098	1,662,440	1,541,174
Net deficit/(surplus)	**2,956,189**	4,736,674	981,690	921,802	(25,765)
Experience loss/(gain) on plan liabilities	**1,474,063**	(421,665)	(83,933)	(132,442)	(59,572)
Experience gain/(loss) on plan assets	**113,888**	20,209	(54,783)	44,552	(12,808)

Schedules forming part of the Financial Statements for the year ended 31 March 2016 (*Contiued)*
(Currency: Indian rupees)

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

5 Notes to accounts (*Continued)*

5.6 Employee benefits (Continued)

g) Defined contribution plan

The Bank has recognised an amount of Rs. 272 million as an expense for the defined contribution plan of provident fund (previous year: Rs. 264 million) and Rs.14 million towards defined contribution plan of pension fund (previous year: Rs. 11 million).

5.7 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.

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.

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 2016**		
Segment Revenue	**22,290,562**	**27,132,758**	**51,354,584**	**2,304,287**	**103,082,191**
Segment Result	**11,533,127**	**2,595,964**	**22,049,517**	**(573,208)**	**35,605,400**
Unallocated expenses					**(1,670,797)**
Unallocated provisions					**–**
Extraordinary items					**–**
Profit before taxes					**33,934,603**
Income taxes					**(14,593,415)**
Net profit					**19,341,188**
			As at 31 March 2016		
Other information					
Segment assets	**784,202,268**	**114,986,472**	**478,251,833**	**18,129,169**	**1,395,569,742**
Unallocated assets					**14,006,806**
Total assets					**1,409,576,548**
Segment liabilities	**270,339,331**	**327,653,131**	**599,771,320**	**21,601,086**	**1,219,364,868**
Unallocated liabilities					**1,670,797**
Total net assets					**188,540,883**
Depreciation	**853**	**14,563**	**6,073**	**750,256**	**771,745**
Non cash Expense other than depreciation	**–**	**844,016**	**36,825**	**89**	**880,930**

Schedules forming part of the Financial Statements for the year ended 31 March 2016 (*Contiued)*

(Currency: Indian rupees)

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

5 Notes to accounts (Continued)

5.8 Segment Reporting (Continued)

(Rs '000)

Business Segments	Treasury	Retail Banking	Corporate Banking	Other Banking Business	Total
Particulars	For the year ended 31 March 2015				
Segment Revenue	25,409,424	27,736,310	50,575,850	917,747	104,639,331
Segment Result	15,247,593	(691,628)	16,833,918	(1,025,096)	30,364,786
Unallocated expenses					(1,693,465)
Unallocated provisions					–
Extraordinary items					–
Profit before taxes					28,671,321
Income taxes					(12,377,242)
Net profit					16,294,080
	As at 31 March 2015				
Other information					
Segment assets	828,059,202	118,170,821	397,524,078	19,125,315	1,362,879,416
Unallocated assets					13,666,573
Total assets					1,376,545,989
Segment liabilities	272,928,369	323,102,541	583,657,314	20,325,768	1,200,013,992
Unallocated liabilities					1,693,465
Total net assets					174,838,532
Depreciation	793	15,508	7,837	333,858	357,996
Non cash Expense other than depreciation	(662,101)	934,041	624,697	–	896,637

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

Geographical segments

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

5.9 Related parties

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

a) Parent

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

b) Branch Offices

Branch offices comprise all branches of The Hongkong and Shanghai Banking Corporation Limited outside 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 – Banco Multiplo
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 (China) Company Limited

Schedules forming part of the Financial Statements for the year ended 31 March 2016 (*Contiued)*

(Currency: Indian rupees)

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

5 Notes to accounts *(Continued)*

5.9 Related parties (Continued)

c) Fellow subsidiaries (Continued)

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 Bank (Taiwan) 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) Private Ltd
HSBC InvestDirect Financial Services (India) Ltd
HSBC InvestDirect Sales & Marketing (India) Ltd

d) Other Related Parties

Canara HSBC Oriental Bank of Commerce Insurance Company Limited

The Saudi British Bank

e) 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 in line with RBI circular DBR.BP.BC No.23/21.04.018/2015-16 dated 01 July 2015):

Income/Expense during the year with related parties are as follows:

(Rs. ‘000)

	Parent		Fellow Subsidiaries & Other Related Parties	
	31 March 2016	31 March 2015	**31 March 2016**	31 March 2015
Interest Paid	**–**	–	**246,903**	455,901
Interest Received	**–**	–	**18**	5
Rendering of Services	**–**	–	**223,519**	168,977
Receiving of Services	**1,670,797**	1,693,465	**2,761,585**	2,515,302

(Rs. ‘000)

	Branch offices	
	31 March 2016	31 March 2015
Interest Paid	**484,033**	336,996
Interest Received	**23,506**	6,582
Rendering of Services	**225,418**	50,508
Receiving of Services	**5,743,338**	3,494,181

Balances with related parties are as follows:

(Rs ‘000)

Parent	**As at 31 March 2016**	**Maximum during the year 2016**	As at 31 March 2015	Maximum during the year 2015
Borrowings	**–**	**–**	–	–
Deposit	**–**	**–**	–	–
Placement of deposits/other asset	**–**	**–**	–	–
Advances	**–**	**–**	–	–
Nostro balances	**–**	**–**	–	–
Other liabilities	**1,670,797**	**1,693,465**	1,693,465	1,693,465
Non Funded Commitments	**–**	**–**	–	–

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

Schedules forming part of the Financial Statements for the year ended 31 March 2016 (*Contiued)*

(Currency: Indian rupees)

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

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

5.9 Related parties (Continued)

Balances with related parties (continued)

(Rs '000)

Branch offices	As at 31 March 2016	Maximum during the year 2016	As at 31 March 2015	Maximum[1] during the year 2015
Borrowings	**69,567,750**	**104,340,900**	76,500,000	102,747,295
Deposit/other liability	**4,183,150**	**14,433,236**	1,438,122	16,394,240
Placement of deposits/other asset	**51,413,878**	**55,527,263**	49,201,452	49,227,428
Advances	**–**	**–**	–	–
Nostro balances	**544,448**	**5,370,997**	1,669,532	12,212,547
Positive MTMs	**14,641,115**	**18,853,952**	11,093,836	14,618,373
Negative MTMs	**20,698,270**	**26,195,943**	17,126,280	22,098,796
Derivative notionals	**802,907,361**	**894,998,978**	428,231,269	503,001,217
Non Funded Commitments	**5,544,603**	**6,435,086**	5,900,919	8,095,651

(Rs '000)

Fellow Subsidiaries & Other Related Parties	As at 31 March 2016	Maximum during the year 2016	As at 31 March 2015	Maximum[1] during the year 2015
Borrowings	**–**	**999,600**	–	2,549,400
Deposit/other liability	**26,704,529**	**52,921,641**	21,516,662	82,979,361
Placement of deposits/other asset	**–**	**–**	276	163,093
Advances	**–**	**–**	–	–
Nostro balances	**1,843,920**	**5,640,248**	1,289,754	44,770,966
Positive MTMs	**2,505,352**	**12,795,178**	12,683,061	13,546,546
Negative MTMs	**5,530,512**	**24,275,366**	23,066,114	23,321,589
Derivative notionals	**235,881,222**	**733,716,136**	693,242,479	744,070,057
Investments	**100**	**100**	100	100
Non Funded Commitments	**13,502,094**	**16,878,452**	11,448,159	24,888,106

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.483,226 (previous year: Rs. 335,554), HSBC Software Development (India) Private Limited Rs.101,367 (previous year: Rs. 298,202) and HSBC Electronic Data Processing India Private Limited Rs.93,952 (previous year: Rs. 81,631)

Interest received:

Interest received from The Hongkong and Shanghai Banking Corporation Limited, Hong Kong Branch Rs.23,506 (previous year: Rs. 6,582)

Rendering of services:

Income from HSBC Securities and Capital Markets (India) Private Limited Rs.75,433 (previous year: Rs. 80,054), The Hongkong and Shanghai Banking Corporation Limited, Hong Kong Branch Rs.210,091 (previous year: Rs. 35,206),

Receiving of services:

Expenses for receiving of services from The Hongkong and Shanghai Banking Corporation Limited, Hong Kong Branch Rs.5,667,922 (previous year: Rs. 3,349,932), HSBC Electronic Data Processing India Private Limited Rs.1,609,198 (previous year: Rs. 1,495,476) and The Hongkong and Shanghai Banking Corporation Limited, (Head Office) Rs. 1,670,797 (previous year: Rs. 1,693,465).

Borrowings:

The Hongkong and Shanghai Banking Corporation Limited, Hong Kong Branch Rs.69,567,750 (previous year: Rs. 76,500,000).

Placement of deposits/other asset:

The Hongkong and Shanghai Banking Corporation Limited, Hong Kong Branch Rs.51,347,625 (previous year: Rs. 49,062,500).

Nostros:

The Hongkong and Shanghai Banking Corporation Limited, Australia Branch Rs. 877,858 (previous year: Rs. 178,201), The Hongkong and Shanghai Banking Corporation Limited, Trinkaus and Burkhardt Rs. 509,035 (previous year: Rs. 182,834), HSBC Bank USA, N.A. Rs. 257,704 (previous year: Rs. 605,568) and The Hongkong and Shanghai Banking Corporation Limited, Japan Branch Rs. 246,594 (previous year Rs. 349,766)

Deposits/other liability:

HSBC Bank USA N.A Rs. 7,133,055 (previous year Rs. 162,153) The Hongkong and Shanghai Banking Corporation Limited, Trinkaus and Burkhardt Rs. 2,785,156 (previous year: Rs. 4,088), HSBC Bank plc Rs. 1,970,740 (previous year Rs. 1,299,411), HSBC Bank Mauritius Limited Rs. 409,264 (Previous year 223,129), The Hongkong and Shanghai Banking Corporation Limited, Bangladesh Branch Rs. 345,778 (previous year Rs. 482,127) and The Hongkong and Shanghai Banking Corporation Limited, Sri Lanka Branch Rs. 234,037 (previous year Rs. 253,350).

Non Funded Commitments:

HSBC France Rs. 2,934,673 (previous year: Rs. 2,561,508) and Midland Bank London Rs. 1,930,701 (previous year Rs 1,654,703).

Derivative Notionals:

The Hongkong and Shanghai Banking Corporation Limited, Hong Kong Branch Rs.773,848,696 (previous year Rs. 414,071,489) HSBC Bank plc Rs.141,805,748 (previous year Rs. 513,796,542)

Schedules forming part of the Financial Statements for the year ended 31 March 2016 (*Contiued)*

(Currency: Indian rupees)

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

5 Notes to accounts *(Continued)*

5.9 Related parties (Continued)

Material related party transactions (Continued)

Positive MTM:

The Hongkong and Shanghai Banking Corporation Limited, Hong Kong Branch Rs.14,425,183 (previous year Rs. 10,863,571)

Negative MTM:

The Hongkong and Shanghai Banking Corporation Limited, Hong Kong Branch Rs.19,135,123 (previous year Rs. 15,111,746) HSBC Bank plc Rs.3,206,759 (previous year Rs. 17,615,434).

5.10 Deferred taxes

There is a deferred tax charge Rs.483 million for the year ended 31 March 2016 (previous year deferred tax credit: Rs. 1,528 million) which is included in the provision for taxation for the year.

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

(Rs '000)

Deferred tax assets	As at 31 March 2016	As at 31 March 2015
Provision for doubtful advances	**4,245,326**	4,282,041
Employee benefits	**2,875,400**	2,499,374
Fixed Assets	–	408,018
Provisions	**336,162**	343,038
Others	**193,677**	181,983
Gross Deferred tax assets	**7,650,565**	7,714,454
Deferred tax liability		
Specific reserve	**(613,252)**	(534,885)
Fixed Assets	**(341,157)**	–
Net Deferred Tax Asset	**6,696,156**	7,179,569

5.11 Operating leases

Total lease rental of Rs. 1,369 million (previous year: Rs. 1,614 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 2016	As at 31 March 2015
Not later than one year	**309,756**	575,241
Later than one year and no later than five years	**126,375**	220,238
Later than five years	–	–
Total	**436,131**	795,479

5.12 Provisions and contingencies

The Bank has a process whereby periodically all long term contracts (including derivative contracts) are assessed for material foreseeable losses. At the year end, the Bank has reviewed and ensured that adequate provision as required under any law/accounting standards for material foreseeable losses on such long term contracts (including derivative contracts) has been made in the books of account. 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 2016		For year ended 31 March 2015	
	Reward points	**Other provisions**	Reward points	Other provisions
Opening balance at the beginning of the period	**406,350**	**101,832**	276,653	72,516
Add: Provision made during the period (Note 5.5.c)	**254,412**	**5,616**	318,269	37,269
Less: Utilisation during the period	**(186,336)**	**(25,896)**	(188,572)	(7,953)
Closing balance at the end of the period	**474,426**	**81,552**	406,350	101,832

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. The Bank has reviewed all its pending litigations and proceedings and has adequately provided for where provisions are required and disclosed the contingent liabilities where applicable, in its financial statements.

Liability on account of forward exchange and derivative contracts

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

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

HSBC

Schedules forming part of the Financial Statements for the year ended 31 March 2016 (*Contiued)*

(Currency: Indian rupees)

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

5 Notes to accounts *(Continued)*

5.12 Provisions and contingencies (Continued)

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 2016 (Previous year: Rs. Nil).

5.14 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.

5.15 Drawdown on reserves

The Bank has not drawn down on reserves during the year ended 31 March 2016 (Previous year: Rs. Nil).

5.16 Disclosure of complaints

Customer Complaints

	For the year ended 31 March 2016	For the year ended 31 March 2015
No. of complaints pending at the beginning of the year	**367**	454
No. of complaints received during the year	**18,370**	15,839
No. of complaints redressed during the year	**18,036**	15,926
No. of complaints pending at the end of the year	**701**	367

Awards Passed By Banking Ombudsman

	For the year ended 31 March 2016	For the year ended 31 March 2015
No. of unimplemented awards at the beginning of the year	–	–
No. of awards passed by the Banking Ombudsman during the year	–	–
No of awards lapsed during the year	–	–
No. of unimplemented awards at the end of the year	–	–

5.17 Disclosure of CSR Expenditure

a) Gross Amount required to be spent by the Bank during the year : Rs. 599 million (Previous year INR 644 million)

b) Amount spent during the year :

(Rs '000)

For the Year ended 31 March 2016	**In Cash**	**Yet to be paid in Cash**	**Total**
i) Construction/acquisition of any asset	**–**	**–**	**–**
ii) On purpose other than (i) above	**221,533**	**3,000**	**224,533**

(Rs '000)

For the Year ended 31 March 2015	In Cash	Yet to be paid in Cash	Total
i) Construction/acquisition of any asset	-	-	-
ii) On purpose other than (i) above	91,498	-	91,498

5.18 Prior period comparatives

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

For Price Waterhouse Chartered Accountants LLP
Firm's Registration No: 012754N/N500016
Chartered Accountants

For The Hongkong and Shanghai Banking Corporation Limited

Sd/-
Vivek Prasad`
Partner
Membership No: 104941

Sd/-
Massimo Villa Multedo
Chief Financial Officer

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

Mumbai
24 June 2016

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

Basel III – Pillar 3 disclosures of India Branches for the period ended 31 March 2016

1 Scope of Application

The capital adequacy framework applies to The Hongkong and Shanghai Banking Corporation Limited – India Branches ('the Bank') as per RBI Basel III guidelines. 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. 0.1 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	615,909	964,768
HSBC Electronic Data Processing India Private Limited	Back office/data processing/ call centre activities	3,554,678	24,659,528
HSBC Global Shared Services (India) Private Limited	Non-operating company	25,000	47,287
HSBC InvestDirect (India) Limited	Holding company for HSBC InvestDirect Group	712,713	4,908,045
HSBC InvestDirect Employees' Welfare Trust	Non-operating company	15	18,548
HSBC InvestDirect Financial Services (India) Limited	Non-banking Finance company	1,462,847	4,289,412
HSBC InvestDirect Sales & Marketing (India) Limited	Non-operating company	1000	36,796
HSBC InvestDirect Securities (India) Private Limited.	Retail securities broking and related activities (Discontinued)	Equity - 875,112 0.001% Compulsory Convertible Preference shares - 870,000	198,077
HSBC Professional Services (India) Private Limited	Providing internal audit services to Group companies	4,838	168,671
HSBC Securities and Capital Markets (India) Private Limited	Stock broking and corporate finance & advisory	Equity - 4,701,139 Preference – 250,000	6,655,670
HSBC Software Development (India) Private Limited	Software design, development and maintenance	327,264	21,578,616
Canara HSBC Oriental Bank of Commerce Life Insurance Company Limited	Life insurance	9,500,000	103,017,014

* As stated in the accounting balance sheet of the legal entity as at 31 March 2015

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.

2 Capital Adequacy & Structure

a. Capital Adequacy

The Bank's capital management framework is shaped by its structure, business model and strategic direction. The Bank carefully assesses its growth opportunities relative to the capital available to support them, particularly in light of the economic environment and tightening of regulations around capital requirements. The Bank's EXCO, Risk management Meeting and ALCO maintains an active oversight over the Capital and Risk Management framework.

Under Pillar 1 of the RBI guidelines on Basel III, the Bank currently follows Standardised Approach for Credit Risk, Standardised Duration Approach for Market Risk and Basic Indicator Approach for Operational risk capital charge for computation and reporting capital adequacy locally to RBI. Further, the Bank has a comprehensive Internal Capital Adequacy Assessment Process ('ICAAP'), which covers the capital management policy of the Bank, sets the process for assessment of the adequacy of capital to meet regulatory requirements, support current and future activities and meet the Pillar I and material Pillar II risks to which the bank is exposed to. The ICAAP also involves stress testing of extreme but plausible scenarios to assess the Bank's resilience to adverse economic or political developments and resultant impact on the Bank's risk profile and capital position for current and future periods. This ensures that the bank has robust, forward looking capital planning processes that account for unique and systemic risks. In addition to the above, the Bank is also subject to Capital Buffers as prescribed by RBI from time to time.

Basel III – Pillar 3 disclosures of India Branches for the period ended 31 March 2016 *(Continued)*

2 Capital Adequacy & Structure *(Continued)*

a. Capital Adequacy *(Continued)*

As per the transitional arrangement, at March 31, 2016, the Bank is required to maintain minimum capital requirement including capital buffers as mentioned below:

Regulatory Minimum in % as per RBI guidelines	As at March 2016
Common Equity Tier I (CET1)(i)	**5.5%**
Capital Conservation Buffer (CCB) (ii) – (Refer note I)	0.625%
Counter-cyclical Buffer (CCCB) (iii) -(Refer note II)	NA
Domestically Systemically Important Bank (D-SIB) (iv) (Refer note III)	0.673%
Minimum Common Equity Tier I (i+ii+iii+iv)	**6.80%**
Minimum Tier I Capital	**8.30%**
Total Capital Adequacy Ratio	**10.30%**

Notes:

I. The CCB is designed to ensure that banks build up capital buffers during normal times, which can be drawn down during a stressed period. Banks in India are required to maintain a capital conservation buffer of 2.5%, comprised of CET1 capital, over and above the regulatory minimum capital requirement. The CCB has been implemented w.e.f 31 March 2016 starting with 0.625% in 2016, increasing in a phased-in manner and reaching 2.5% by March 2019.

II. RBI issued guidelines on CCCB framework for banks in India in February 2015. The CCCB may vary from 0 to 2.5% of total RWA and the decision would normally be pre-announced with a lead time of 4 quarters. The activation of CCCB will depend upon Credit to GDP gap in India (difference between Credit to GDP ratio and the long-term trend value of such ratio of any point in time) along with supplementary indicators such as Credit-Deposit ratio for a moving period of 3 years, industry outlook assessment index and interest coverage ratio. As stated by RBI in **First Bi-monthly Monetary Policy Statement, 2016-17 issued on 05 April 2016**, a review of CCCB indicators was carried out by the RBI and it has been decided that it is not necessary to activate CCCB in India at this point in time.

III. The Reserve Bank of India (RBI) released the framework on D-SIB requirements for banks operating in India in July 2014. Banks may become systemically important due to their size, cross-jurisdictional activity, complexity, interconnectedness and lack of substitutability. As per the RBI guidelines, for a foreign bank having branch presence in India (such as the Bank) which is classified as Globally Systemically Important Bank (G-SIB) by Financial Stability Board (FSB), it has to maintain additional CET1 capital surcharge in India as applicable to it as a G-SIB, proportionate to its Risk Weighted Assets (RWAs) in India. This requirement is to be implemented from 31 March 2016 in phased-in manner, to become fully effective from 31 March 19.

The Bank continues to monitor developments and believe that current robust capital adequacy position means the bank is well placed for continuing compliance with the Basel III framework.

(i) Composition of Tier 1 capital

(Rs '000)

	At 31 March 2016	At 31 March 2015
Capital	**44,991,660**	44,991,660
Eligible Reserves	**123,423,391**	106,914,746
Less: Deductions from Tier I Capital	**(1,021,393)**	(7,873,029)
– Intangible Assets (Deferred Tax Asset - DTA)(Note 1)	–	(7,179,568)
– Investment in subsidiaries in India	**(111)**	(200)
– Debit Value Adjustments (DVA)	**(1,021,282)**	(638,862)
– Defined Benefit Pension Fund Asset	–	(54,399)
Tier I Capital	**167,393,657**	144,033,377
Of Which Common Equity Tier I Capital	**167,393,657**	144,033,377
Additional Tier I Capital	**–**	–
Total Tier I Capital	**167,393,657**	144,033,377

Note1: As per RBI guidelines as on 01 March 2016, DTA which was deducted from CET1 capital, can be recognised in the CET1 with a limit of 10% of net CET1 (after deducting DTA). Currently DTA is 4.17% of net CET1 capital. Further, property revaluation reserve which was included in Tier II Capital is now part of Tier I Capital

(ii) Tier 2 capital

(Rs '000)

	At 31 March 2016	At 31 March 2015
Property revaluation reserves (Note 2)	–	3,777,757
General Loss Provisions/Other Eligible Reserves	**7,438,746**	7,955,931
Total Tier II Capital (Note 3)	**7,438,746**	11,733,688

Note 2: As per RBI guidelines as on 01 March 2016, property revaluation reserve has been moved to Tier I Capital.

Note 3: There is no debt capital instrument and subordinated debt outstanding as at 31 March 2016 included in Tier II Capital.

Basel III – Pillar 3 disclosures of India Branches for the period ended 31 March 2016 *(Continued)*

2 Capital Adequacy & Structure *(Continued)*

b. Capital Adequacy *(Continued)*

(iii) Capital requirements for Credit Risk, Market Risk and Operational Risk

(Rs '000)

		At 31 March 2016	At 31 March 2015
I.	**Capital required for Credit Risk**	**83,028,461**	72,291,036
	– For portfolios subject to Standardised approach	**83,028,461**	72,291,036
II.	**Capital required for Market Risk (Standard Duration Approach)**	**18,477,060**	13,623,568
	– Interest rate risk	**16,305,104**	12,134,395
	– Foreign exchange risk	**926,855**	720,000
	– Equity risk	**140,638**	113,620
	– Securitisation exposure	**1,104,463**	655,553
III.	**Capital required for Operational Risk (Basic Indicator Approach)**	**11,084,606**	8,525,654
	Total capital requirement (I + II + III)	**112,590,127**	94,440,259
	Total capital funds of the Bank	**174,832,403**	155,767,065
	Total risk weighted assets	**1,093,279,199**	1,049,336,210
	Consolidated total capital ratio	**15.99%**	14.84%
	Consolidated Common Equity Tier I Capital Ratio	**15.31%**	13.73%
	Consolidated Tier I capital ratio	**15.31%**	13.73%

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

3 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.

The principal objectives of our credit risk management function are:

- to maintain a strong culture of responsible lending, and a robust credit risk policy and control framework;
- to both partner and challenge our businesses in defining, implementing and continually re-evaluating our credit risk appetite under actual and stress scenario conditions; and
- to ensure there is independent, expert scrutiny of credit risks, their costs and their mitigation.

Strategy and Processes

HSBC Holdings plc (HSBC Group Head Office) formulates high-level risk management policies for the HSBC Group entities worldwide. The Bank has also formulated local credit guidelines consistent with HSBC policy and RBI guidelines. The Bank's risk management policies and procedures are subject to a high degree of oversight and guidance to ensure that all types of risk are systematically identified, measured, analyzed and actively managed. The Bank remains a full service bank, servicing all major business groups- Global Banking and Markets (GBM), Commercial Banking (CMB), Retail Banking and Wealth Management (RBWM), and Global Private Banking (GPB).

The Bank has standards, policies and procedures dedicated to the sanctioning, monitoring and management of various risks, which include the following:

- The Board of The Hongkong and Shanghai Banking Corporation Limited in Hongkong SAR (HBAP) has established the India Executive Committee (EXCO) to assist the Board in the running of the Bank. The EXCO is authorized to exercise all the powers, authorities and discretions of the HBAP on the management and day to day running of the Bank, in accordance with the policies and directions set by the Board from time to time. EXCO approves all the policies including credit policies. A Risk Management Meeting (RMM) consisting of senior executives, reviews overall portfolio risks and key risks faced by the bank in India on a monthly basis.
- A Wholesale Credit and Market Risk Management (WMR) unit independent of business with a matrix of delegated approval authorities, undertaking independent reviews and objective assessment of the credit risk for all customers. The WMR function has the responsibility of setting and managing strategy, policy, appetite, expectations and standards for wholesale credit and market risk.
- The RBWM Risk function is responsible for monitoring the quality of the Retail Banking and Wealth Management (RBWM) lending portfolio. For retail lending, INM has developed credit application scorecards, which make use of statistical models & historical data to scientifically assess the borrowers. This may also be supplemented with judgmental lending as appropriate. Policy rules are built into the system to enable online checks. The Bank also deploys other tools like external verifications, negative customer database search & most importantly credit bureau checks through the Credit Information Bureau (India) Limited (CIBIL). The judgmental aspect also tries to identify the financial strength, ability and intentions of borrowers for repayment.
- For retail risk, the INM RBWM risk and Acquisition and Account Risk Management Team reviews and communicates the various internal risk policies. The RRPs (Risk reward program) defines the product parameters for RBWM.
- A robust framework for Risk Appetite Statements (RAS) and Risk Tolerance triggers for all material risks. The Risk Management committee reviews and regularly monitors the compliance with RAS. The Bank has stipulated Credit Risk Appetite and tolerance triggers for asset quality, impairments, risk weighted assets, risk adjusted returns and concentration risks.

Basel III – Pillar 3 disclosures of India Branches for the period ended 31 March 2016 *(Continued)*

3 Credit risk ***(Continued)***

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

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

- Designing of comprehensive credit risk policies for management of Exposure norms and Country Risk Plan. These policies delineates the Bank's risk appetite and maximum permissible exposures to individual customers, customer groups, industries, sensitive sectors and other forms of credit risk concentrations.
- The bank also has comprehensive policies for valuation, end use monitoring, real estate exposures, management of intra-group exposures, provisioning, distressed assets and recovery and sale of NPA.
- The Bank also has sustainability risk policies to ensure sustainable financing in accordance with the group guidelines.
- Stress Testing Policy & Framework for rigorous risk specific and Enterprise-wide stress testing and reporting.
- 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.
- Maintaining and developing HSBC's risk rating framework and systems 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

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.

Credit underwriting is processed at different levels (country, region, Group) depending on size and complexity of proposals and by different teams (F.Is/Corporate/Trade/Cross-Border Approvals). Credit approval authorities are delegated from the Chief Risk Officer at the Regional Head Office in Hong Kong to the CEO, India and the CRO, India. The Chief Risk Officer in India maintains a strong functional reporting line to the CRO in Hong Kong. The CRO of India further delegates lending authorities to WMR executives. For certain customer types, the approval is granted either ASP Risk/ Group Risk basis the recommendation of India WMR. Relationship management of problem accounts or downgrades in certain internal ratings are transferred to LMU (Loan Management Unit) within Risk.

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

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

The Bank performs regular reporting on its credit risk portfolio (wholesale & retail), to include information on large credit exposures, concentrations, industry exposures, levels of impairment provisioning, delinquencies, LTVs and country exposures to various internal governance forums. The analysis of the portfolio is also presented to the RMM monthly.

Non-performing advances (Continued)

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.

Special attention is paid to high risk 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. Quantitative disclosures for portfolios under the standardised approach

(i) Total gross credit risk exposures by geography

(R\s '000)

			At 31 March 2016
	Fund based Note 1	**Non fund based Note 2**	**Total**
Overseas	–	–	–
Domestic	**795,500,976**	**446,638,086**	**1,242,139,062**
Total	**795,500,976**	**446,638,086**	**1,242,139,062**

(Rs '000)

			As at 31 March 2015
	Fund based Note 1	Non fund based Note 2	Total
Overseas	–	–	–
Domestic	720,615,642	536,968,025	1,257,583,667
Total	720,615,642	536,968,025	1,257,583,667

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.

Basel III – Pillar 3 disclosures of India Branches for the period ended 31 March 2016 *(Continued)*

3 Credit risk *(Continued)*

b. Quantitative disclosures for portfolios under the standardized approach *(Continued)*

(ii) Industry type distribution of exposures as at 31 March 2016

(Rs '000)

Industry	Fund based	Non Fund based	Total
Mining and Quarrying	185,547	49,560	235,107
Food Processing	10,811,609	2,419,630	13,231,239
Beverages and Tobacco	11,974,377	2,221,228	14,195,605
Textiles	5,470,786	5,451,995	10,922,781
Leather and Leather products	32,001	32	32,033
Wood and Wood Products	225,406	565	225,971
Paper and Paper Products	3,668,791	293,317	3,962,108
Petroleum	123,908	7,720,136	7,844,044
Chemicals and Chemical Products	74,664,832	27,541,696	102,206,528
Rubber, Plastic and their Products	7,859,341	1,498,459	9,357,800
Glass & Glassware	2,681,077	256,475	2,937,552
Cement and Cement Products	1,134,793	1,624,935	2,759,728
Basic Metal and Metal Products	11,965,606	14,358,506	26,324,112
All Engineering	34,170,977	39,749,616	73,920,593
Vehicles and Transport Equipments	19,813,316	17,375,569	37,188,885
Gems and Jewellery	205,150	1,391	206,541
Construction	14,772,689	547,627	15,320,316
Infrastructure	74,197,448	57,024,517	131,221,965
NBFCs and trading	51,955,256	19,792,743	71,747,999
Banking and finance	152,005,200	94,604,954	246,610,154
Computer Software	1,894,350	40,567,424	42,461,774
Professional Services	30,629,887	59,630,782	90,260,669
Other Industries	173,903,510	42,528,221	216,431,731
Retail	111,155,119	11,378,708	122,533,827
Total	**795,500,976**	**446,638,086**	**1,242,139,062**

Industry type distribution of exposures as at 31 March 2015

(Rs '000)

Industry	Fund based	Non Fund based	Total
Mining and Quarrying	13	20,618	20,631
Food Processing	6,996,433	1,172,660	8,169,093
Beverages and Tobacco	8,245,496	2,807,798	11,053,294
Textiles	4,668,472	6,782,461	11,450,933
Leather and Leather products	16,427	6,439	22,866
Wood and Wood Products	134,023	565	134,588
Paper and Paper Products	6,003,934	515,960	6,519,894
Petroleum	1,052,391	4,097,396	5,149,787
Chemicals and Chemical Products	57,396,315	51,349,192	108,745,507
Rubber, Plastic and their Products	8,183,952	2,160,507	10,344,459
Glass & Glassware	3,396,672	245,785	3,642,457
Cement and Cement Products	7,410,162	3,269,070	10,679,232
Basic Metal and Metal Products	22,633,545	22,115,951	44,749,496
All Engineering	24,343,445	34,043,822	58,387,267
Vehicles and Transport Equipments	17,210,876	21,788,713	38,999,589
Gems and Jewellery	259,592	1,875	261,467
Construction	20,547,547	1,531,648	22,079,195
Infrastructure	39,328,376	67,149,828	106,478,204
NBFCs and trading	51,690,191	22,229,814	73,920,005
Banking and finance	157,861,757	126,154,010	284,015,767
Computer Software	1,894,105	40,218,315	42,112,420
Professional Services	24,074,267	80,410,346	104,484,613
Other Industries	157,396,484	38,516,088	195,912,572
Retail	99,871,167	10,379,164	110,250,331
Total	720,615,642	536,968,025	1,257,583,667

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

Basel III – Pillar 3 disclosures of India Branches for the period ended 31 March 2016 *(Continued)*

3 Credit risk *(Continued)*

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

(iii) Residual contractual maturity breakdown of total assets

(Rs'000)

	At 31 March 2016	At 31 March 2015
1 day	**208,146,711**	219,822,667
2 to 7 days	**174,547,354**	113,863,234
8 to 14 days	**84,779,999**	36,147,530
15 to 28 days	**134,754,893**	96,742,606
29 days & up to 3 months	**135,842,120**	125,451,873
Over 3 months and up to 6 months	**107,026,679**	160,705,077
Over 6 months and up to 1 year	**147,988,870**	143,911,839
Over 1 year and up to 3 years	**112,308,089**	145,415,554
Over 3 years and up to 5 years	**87,237,238**	102,714,760
Over 5 years	**216,944,594**	231,770,849
Total	**1,409,576,548**	1,376,545,989

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

(Rs'000)

	At 31 March 2016	At 31 March 2015
Substandard	**1,869,059**	3,259,070
Doubtful 1	**2,375,865**	1,035,612
Doubtful 2	**1,885,410**	1,473,430
Doubtful 3	**1,232,100**	1,663,918
Loss	**995,426**	482,543
Total	**8,357,860**	7,914,574

(v) Net NPAs

The net NPAs are Rs.2,113 million (as at 31 March 2015- Rs. 2,381 million). Please see table (vii) below.

(vi) NPA ratios

	At 31 March 2016	At 31 March 2015
Gross NPAs to gross advances	**1.50%**	1.68%
Net NPAs to net advances	**0.38%**	0.51%

(vii) Movement of NPAs

(Rs'000)

	At 31 March 2016		
	Gross NPA's	**Provision**	**Net NPA**
Opening balance as at 1 April 2015	**7,914,574**	**5,533,401**	**2,381,173**
Additions during the period	**3,383,758**	**1,448,979**	**1,934,779**
Reductions during the period	**(2,940,472)**	**(737,643)**	**(2,202,829)**
Closing balance as at 31 March 2016	**8,357,860**	**6,244,737**	**2,113,123**

(Rs'000)

	At 31 March 2015		
	Gross NPA's	Provision	Net NPA
Opening balance as at 1 April 2014	6,601,422	5,625,195	976,227
Additions during the period	5,447,068	1,389,189	4,057,879
Reductions during the period	(4,133,916)	(1,480,983)	(2,652,933)
Closing balance as at 31 Mar 2015	7,914,574	5,533,401	2,381,173

(viii) General Provisions

General provisions comprises of provision towards standard assets and Unhedged Foreign Currency Exposure (UFCE) in accordance with RBI Master Circular DBR No. .BP.BC.2/21.04.048/2015-16 dated 01 July 2015.

(ix) Non-performing investments

Non-performing investments as at 31 March 2016 are Rs. 3 (as at 31 March 2015 Rs. 3). This represents 3 preference share investments which have each been written down to Rs.1.

Basel III – Pillar 3 disclosures of India Branches for the period ended 31 March 2016 *(Continued)*

3 Credit risk *(Continued)*

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

(x) Movement of provisions for depreciation on investments

(Rs'000)

	At 31 March 2016	At 31 March 2015
Opening balance	**300**	662,401
Provisions during the year	**89**	–
Write offs during the year	**–**	–
Write back of excess provisions during the year	**–**	(662,101)
Closing balance	**389**	300

(xi) Classification (by major industry) of NPA, Provision, past due loans as at 31 March 2016 and Specific Provision and Write off during the year

(Rs '000)

		NPA	**Past Due Loans**	**Provision**	**Specific Provision during the year**	**Write off during the year**
1.	Agriculture	**–**	**–**	**–**	**–**	**–**
1.1	Direct Agriculture	**–**	**–**	**–**	**–**	**–**
1.2	Indirect Agriculture	**–**	**–**	**–**	**–**	**–**
2.	Advances to Industries sector of which:	**3,233,947**	**1,219,547**	**2,715,013**	**790,626**	**13,579**
2.1	Glass & Glassware	**2,078,006**	**–**	**1,556,968**	**746,743**	**–**
2.2	Infrastructure	**433,947**	**–**	**436,755**	**–**	**–**
2.3	Textiles	**417,616**	**121,102**	**418,052**	**9,053**	**–**
3.	Services of which:	**2,352,361**	**175,498**	**2,359,922**	**132,692**	**158,553**
3.1	Trade	**1,788,255**	**64,324**	**1,795,469**	**78,957**	**–**
3.2	Computer Software	**226,302**	**–**	**226,300**	**17,954**	**–**
3.2	NBFC	**219,738**	**–**	**218,494**	**7,634**	**158,553**
4.	Retail	**2,771,553**	**2,184,000**	**1,169,802**	**525,661**	**452,119**
	Total	**8,357,860**	**3,579,044**	**6,244,737**	**1,448,979**	**624,251**

Classification (by major industry) of NPA, Provision, past due loans as at 31 March 2015 and Specific Provision and Write off during the year

(Rs '000)

		NPA	Past Due Loans	Provision	Specific Provision during the year	Write off during the year
1.	Agriculture	–	–	–	–	–
1.1	Direct Agriculture	–	–	–	–	–
1.2	Indirect Agriculture	–	–	–	–	–
2.	Advances to Industries sector of which:	3,512,663	1,403,823	2,278,296	915,676	563,667
2.1	Glass & Glassware	2,128,266	121,102	894,849	894,849	–
2.2	Infrastructure	433,947	–	436,755	2,445	–
2.3	Textiles	408,593	110,000	408,999	3,189	164,042
3.	Services of which:	2,358,581	105,436	2,286,795	35,795	–
3.1	Trade	1,611,561	70,150	1,572,356	533	–
3.2	Computer Software	213,475	–	213,475	–	–
3.3	NBFC	400,409	–	411,539	34,951	–
4.	Retail	2,043,330	2,901,461	968,310	437,718	870,241
	Total	**7,914,574**	**4,410,720**	**5,533,401**	**1,389,189**	**1,433,908**

(xii) Write offs and recoveries directly booked to income statement.

(Rs '000)

	At 31 March 2016	At 31 March 2015
Write offs	**475,507**	489,177
Recoveries	**172,762**	173,134

Basel III – Pillar 3 disclosures of India Branches for the period ended 31 March 2016 *(Continued)*

3 Credit risk *(Continued)*

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

(xiii) Ageing of past due loans

(Rs '000)

	At 31 March 2016	At 31 March 2015
Overdue less than 30 days	**3,111,246**	3,370,047
Overdue for 30 to 60 days	**379,632**	802,696
Overdue for 60 to 90 days	**88,166**	237,977
Total	**3,579,044**	4,410,720

(xiv) Amount of NPAs and past due loans by significant geographic areas as at 31 March 2016

(Rs '000)

	NPA	Past Due Loans
Overseas	–	–
Domestic	**8,357,860**	**3,579,044**
Total	**8,357,860**	**3,579,044**

Amount of NPAs and past due loans by significant geographic areas as at 31 March 2015

(Rs '000)

	NPA	Past Due Loans
Overseas	–	–
Domestic	7,914,574	4,410,720
Total	7,914,574	4,410,720

4. 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
e) Brickwork Ratings India Pvt Limited
f) SMERA Ratings Limited (SMERA)

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.

The process used by the Bank to transfer public issue ratings onto comparable assets in the banking book is in line with RBI Master circular on Basel-III Capital Regulations dated 01 July 2015.

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

Risk weight mapping of long term and short term corporate ratings

Long Term Ratings of all ECAIs	Risk weights
AAA	20%
AA	30%
A	50%
BBB	100%
BB & Below	150%
Unrated	100%

Short Term Ratings						Risk weights
CARE	**CRISIL**	**FITCH**	**ICRA**	**BRICKWORK**	**SMERA**	
CARE A1 +	CRISIL A1 +	FITCH A1 +	ICRA A1 +	BRICKWORK A1+	SMERA A1+	20%
CARE A1	CRISIL A1	FITCH A1	ICRA A1	BRICKWORK A1	SMERA A1	30%
CARE A2	CRISIL A2	FITCH A2	ICRA A2	BRICKWORK A2	SMERA A2	50%
CARE A3	CRISIL A3	FITCH A3	ICRA A3	BRICKWORK A3	SMERA A3	100%
CARE A4	CRISIL A4	FITCH A4	ICRA A4	BRICKWORK A4	SMERA A4	150%
CARE D	CRISIL D	FITCH D	ICRA D	BRICKWORK D	SMERA D	150%
Unrated	Unrated	Unrated	Unrated	Unrated	Unrated	100%

Basel III – Pillar 3 disclosures of India Branches for the period ended 31 March 2016 *(Continued)*

4 Disclosures for portfolios under the standardised approach (*Continued*)

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 *(Investments referred to in paragraph 5.6.1 (i) & (ii) of RBI Master circular on Basel-III Capital Regulations dated 01 July 2015)*, are risk weighted as shown below:

Claims on Banks Incorporated in India and Foreign Bank Branches in India	**Risk Weights%**	
Level of Common Equity Tier 1 capital (CET1) including applicable capital conservation buffer (CCB) (%) of the investee bank (where applicable)	**Scheduled Banks**	**Other Banks**
Applicable Minimum CET1 + Applicable CCB and above	20%	100%
Applicable Minimum CET1 + CCB = 75% and <100% of applicable CCB	50%	150%
Applicable Minimum CET1 + CCB = 50% and <75% of applicable CCB	100%	250%
Applicable Minimum CET1 + CCB = 0% and <50% of applicable CCB	150%	350%
Minimum CET1 less than applicable minimum	625%	625%

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

a) Fitch Ratings;

b) Moodys; and

c) Standard & Poor's Ratings Services (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%

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%

5. Policy for Collateral Valuation and Management

The Bank has policies and manuals for collateral management and credit risk mitigation techniques, which include among other aspects guidelines on acceptable types of collateral, ongoing monitoring of collateral including the frequency and basis of valuation and application of credit risk mitigation techniques.

The Bank's approach when granting credit facilities is to do so on the basis of capacity to repay rather than placing primary reliance on credit risk mitigants. Depending on a customer's standing and the type of product, facilities may be provided unsecured. Mitigation of credit risk is a key aspect of effective risk management for the bank.

Where credit risk mitigation is available in the form of an eligible guarantee, the exposure is divided into covered and uncovered portions. The covered portion, which is determined after applying an appropriate 'haircut' for currency and maturity mismatch to the amount of the protection provided, attracts the risk weight of the protection provider. The uncovered portion attracts the risk weight of the obligor.

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.

Valuation strategies are established to monitor collateral mitigants to ensure that they will continue to provide the anticipated secure secondary repayment source. 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 has been capped at 80% for loans upto INR 7.5 Mn and 75% for loans greater than 7.5 Mn. 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. Retail risk has a board-approved valuation policy which includes conditions when dual valuation is done. The disbursal of the loan is handled through an empanelled lawyer who in exchange collects the security documents from the borrower. The property documents thus collected are stored in central archives in a secure manner.

Basel III – Pillar 3 disclosures of India Branches for the period ended 31 March 2016 *(Continued)*

5. Policy for Collateral Valuation and Management (Continued)

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 Retail 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 the Bank

As stipulated by the RBI guidelines, the Bank uses the comprehensive approach for collateral valuation for RWA computation. Under this approach, the Bank reduces its credit exposure to counterparty when calculating its capital requirements to the extent of risk mitigation provided by the eligible collateral as specified in the Basel III guidelines. The Bank adjusts the value of any collateral received to adjust for possible future fluctuations in the value of the collateral in line with the requirements specified by RBI guidelines. These adjustments, also referred to as 'haircuts', to produce volatility-adjusted amounts for collateral, are reduced from the exposure to compute the capital charge based on the applicable risk weights. The Bank reckons the permitted credit risk mitigants for obtaining capital relief only when the credit risk mitigant fulfills the conditions stipulated for eligibility and legal certainty by RBI in its guidelines on Basel III.

The main types of recognised collateral taken by the Bank appear in the list of eligible financial collaterals advised in RBI Master circular on Basel III Capital Regulations issued in July 2015, 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 7.5.6 of the RBI's Master circular on Basel-III guidelines, certain guarantees are recognised for credit risk mitigation purposes. Where guarantees are direct, explicit, irrevocable, unconditional and meeting all operating guidelines prescribed by RBI, the Bank may take account of such credit protection in calculating capital requirements. The main types of guarantees are from Sovereigns, sovereign entities (including Bank for International Settlements (BIS), International Monetary Fund (IMF), European Central Bank and European Community as well as those Multilateral Development Banks (MDBs) referred to in paragraph 5.5 of the RBI's Master circular on Basel-III guidelines, Export Credit Guarantee Corporation of India Ltd (ECGC) and Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTSI), Credit Guarantee Fund Trust for Low Income Housing (CRGFTLIH)), banks and primary dealers with a lower risk weight than the counterparty. Other entities that are externally rated are also eligible guarantors, except when credit protection is provided to a securitisation exposure. This would include credit protection provided by parent, subsidiary and affiliate companies when they have a lower risk weight than the obligor.

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. 110,296 as at 31 March 2016 million (as at 31 March 15: Rs. 56,506 million).

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

(Rs'000)

	At 31 March 2016	At 31 March 2015
Below 100% risk weight	**726,180,194**	786,488,675
100% risk weight	**404,365,425**	396,379,199
Above 100% risk weight	**51,476,734**	29,861,758
Deductions*	**(1,021,282)**	(7,873,029)
Total	**1,181,001,070**	1,204,856,603

Note: As per RBI guidelines as on 01 March 2016, DTA which was deducted from CET1 capital, can be recognised in the CET1 with a limit of 10% of net CET1 (after deducting DTA). Currently DTA is 4.17% of net CET1 capital. Accordingly, there is no deduction as on 31 March 2016.

* Deduction represents amounts deducted from Tier I Capital

6. Securitisation disclosure for standardised approach

The Bank acts as originator, servicer and investor in securitisation transactions. The Bank's 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.

Basel III – Pillar 3 disclosures of India Branches for the period ended 31 March 2016 *(Continued)*

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).

Securitisation accounting treatment

The accounting treatment applied is as below:

- Originator: Securitised assets are derecognised 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 recognised 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 recognised 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 maintain 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

d) ICRA Limited

e) Brickwork Ratings India Pvt Limited

f) SMERA Ratings Limited (SMERA)

(i) Details of securitisation of standard assets

The Bank has not securitised any standard assets in the current year (previous year- Nil)

The RBI issued addendum guidelines on securitisation of standard assets vide its circular dated 7 May2012, subsequent to this date the Bank has not originated any securitisation transaction.

(ii) Securitisation of impaired/past due assets

The Bank has not securitised any impaired/past due assets (31 March 2015: Nil).

(iii) Loss recognised on securitisation of assets

The Bank has not recognised any losses during the current year for any securitisation deal (31 March 2015: Nil).

(iv) Securitisation exposures retained or purchased

The Bank has made investments in Pass Through Certificates (PTCs) of Rs. 46,392 million as at 31 March 2016 (as at 31 March 2015: Rs. 35,659 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.

7 Market risk in trading book

Market risk is the risk that movements in market factors, including foreign exchange rates, interest rates, credit spreads and equity prices will reduce our income or the value of our portfolios. Market risk arises on financial instruments, which are measured at fair value in the trading book.

The objective of the HSBC's market risk management is to manage and control market risk exposures in order to optimise return on risk while maintaining a market profile consistent with our risk appetite.

Strategy and Processes

The Bank separates exposure to market risk into Trading book and accrual book. Trading book includes positions arising from market-making customer demand driven inventory.

Accrual book includes 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.

Basel III – Pillar 3 disclosures of India Branches for the period ended 31 March 2016 *(Continued)*

7 Market risk in trading book *(Continued)*

Structure and Organisation of management of risk

The management of market risk is undertaken in Markets using risk limits approved by an independent Risk function. Limits are set for portfolios, products and risk types. The level of market risk limits set for each operation depends upon the market liquidity, 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 risk appetite. Market risk limits are reviewed annually.

Global Risk, an independent unit within the Group, is responsible for our market risk management policies and measurement techniques. At local level, the Bank has a Market Risk Management function, independent of Markets, which is responsible for measuring market risk exposures in accordance with the Group policies, 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 employs a range of tools to monitor and limit market risk exposures. These include position limits, sensitivity analysis (PVBP limits), stop loss limit, 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.

The Bank's 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 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.

Market Risk Limits are proposed by the Head of Treasury and are endorsed by CRO and CEO before submission to Regional/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 Market Risk Management function through system reports and advised to senior management on an ongoing basis.

(i) Capital requirements for market risk

(Rs'000)

Standardised Duration Approach	At 31 March 2016	At 31 March 2015
Interest rate risk	**16,305,104**	12,134,395
Foreign exchange risk	**926,855**	720,000
Equity risk	**140,638**	113,620
Securitisation exposure	**1,104,463**	655,553
Capital requirements for market risk	**18,477,060**	13,623,568

8 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 RMM of the Bank, a sub-committee of EXCO, is responsible for the Operational Risk management of the Bank. The RMM meets monthly, or more frequently if required, to assess and monitor operational risks and, where appropriate, authorise mitigating actions. The RMM 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.

Three Lines of Defence (3LOD) Overview

The 3LOD outlines three essential columns of responsibilities, defined by activities performed. It is applicable to all individuals within the Bank. There should be a clear separation between the First, Second and Third Line of Defence responsibilities. The First Line has ultimate ownership for risk and controls, with an independent Second Line providing oversight, challenge and advice to the First Line of Defence (LOD). It should be noted that the 3LOD applies to all risk categories, not only operational risk categories. Functions can have both First and Second LOD responsibilities, although these must be segregated across teams. Individuals will therefore be aligned to a single LOD. At an appropriate level of seniority (normally executive level), a single individual may have responsibilities across the First and Second LOD.

First Line of Defence

The First Line of Defence is comprised of 'Risk Owners' and 'Control Owners'. Individuals can be both Risk Owners and Control Owners, depending on the activity they are undertaking. 'Risk Owners' own risk on behalf of the organisation. They are accountable for owning and managing the risks associated with their business activities, to ensure that they remain within the stated risk appetite. Risk Owners are responsible for ensuring day-to-day controls are in place to identify, assess, control and monitor their risks. Performance of the controls may remain with the Risk Owner, or may be outsourced to Global Functions, HOST or a Third party. The party that performs the control (i.e. the 'Control Owner') is accountable to the Risk Owner for the effectiveness and management of the controls. 'Control Owners' therefore have day-to-day responsibility for the process or activity that provides the control to mitigate the risks associated with our business activities. They own the control monitoring process to ensure the effectiveness of the controls relied upon by the Risk Owners to manage their risks.

Basel III – Pillar 3 disclosures of India Branches for the period ended 31 March 2016 *(Continued)*

8 Operational risk *(Continued)*

Extending and approving limits are examples of First Line activities performed by Risk and Control Owners.

Second Line of Defence

The Second Line of Defence consists of 'Risk Stewards' who are independent of the risk-taking activities in the First Line of Defence. 'Risk Stewards' and their teams sit within Global Risk and other Global Functions. Risk Stewards are specialists in a risk area, set policies and limits in accordance with the stated risk appetite, and provide advice, guidance and challenge relating to their risk area. They assess and opine on the overall risk management activities relating to their risk area carried out by the First Line. Local Heads of Functions or Risk sub-functions are the lead Risk Stewards for their area. Credit policy definition is an example of a Second Line activity. Operational Risk is responsible for embedding the Operational Risk Management Framework and assurance of adherence to associated policies and processes (e.g. Risk and Control Assessments) across First and Second Lines.

Third Line of Defence

The Third Line of Defence, Global Internal Audit, provides independent assurance to management and the non-executive Risk and Audit Committees that HSBC's risk management, governance and internal control processes are operating effectively.

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 RMM. A consolidated summary of the operational loss incidents affecting the key businesses is shared with the Bank's Business Risk and Control Management (BRCM) teams on a bi-monthly basis and significant loss events, gaps, mitigants etc are discussed.

9 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 ALCO 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 categorised 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.

Basel III – Pillar 3 disclosures of India Branches for the period ended 31 March 2016 *(Continued)*

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

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

The report computes the net exposure/net gap of rate sensitive assets and liabilities in defined time buckets. Rate sensitive assets, liabilities and off balance sheet positions are grouped into time buckets according to residual maturity or next re-pricing period, whichever is earlier. The Gap refers to the difference between rate sensitive assets (RSA) and rate sensitive liabilities (RSL) for each time bucket. A positive gap indicates that it has more RSA whereas negative gap indicates that it has more RSLs.

Traditional Gap Analysis (TGA) AS AT 31 Mar 16 Net Gap	**1-28 days**	**29 days and up to 3 months**	**Over 3 months and up to 6 months**	**Over 6 months and up to 1 year**	**Over 1 year and up to 3 years**	**Over 3 years and up to 5 years**	**Over 5 years and up to 7 years**	**Over 7 years and up to 10 years**	**Over 10 year and up to 15 years**	**Over 15 years**
Net Gap	**0.02%**	**0.01%**	**0.00%**	**0.00%**	**0.00%**	**0.01%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**
Limit	**0.75%**	**0.75%**	**0.75%**	**0.75%**	**0.75%**	**0.75%**	**0.75%**	**0.75%**	**0.75%**	**0.75%**
Cumulative Gap	**0.02%**	**0.01%**	**0.00%**	**0.01%**	**0.01%**	**0.00%**	**0.01%**	**0.01%**	**0.01%**	**0.01%**
Limit	**1.00%**	**1.00%**	**1.00%**	**1.00%**	**1.00%**	**1.00%**	**1.00%**	**1.00%**	**1.00%**	**1.00%**

Traditional Gap Analysis (TGA) AS AT 31 Mar 15 Net Gap	**1-28 days**	**29 days and up to 3 months**	**Over 3 months and up to 6 months**	**Over 6 months and up to 1 year**	**Over 1 year and up to 3 years**	**Over 3 years and up to 5 years**	**Over 5 years and up to 7 years**	**Over 7 years and up to 10 years**	**Over 10 year and up to 15 years**	**Over 15 years**
Net Gap	0.16%	0.02%	0.25%	0.37%	0.03%	0.10%	0.04%	0.01%	0.00%	0.00%
Limit	0.75%	0.75%	0.75%	0.75%	0.75%	0.75%	0.75%	0.75%	0.75%	0.75%
Cumulative Gap	0.16%	0.14%	0.40%	0.03%	0.06%	0.04%	0.08%	0.09%	0.09%	0.09%
Limit	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%

Duration Approach

The report computes change in value of a banking entity's equity due to change in interest rates. The change in value of equity is computed based on Modified duration Gap which is the difference between modified duration of rate sensitive assets and liabilities. Under this, Banks are permitted to use book value of rate sensitive assets and liabilities instead of market value to compute change in value of Equity. The Modified Duration (MD) of Rate sensitive assets and liabilities are computed taking into account its tenor, coupon and yield. The weighted average MD of assets and liabilities is computed to arrive at Modified Duration Gap, based on the MD of each item.

Duration Gap Analysis (DGA) as at 31 Mar 2016	
Modified Duration Gap	0.12
% change in MVE	
200 bps change in interest rates	-10.5%
Limit	-20%

Duration Gap Analysis (DGA) as at 31 Mar 2015	
Modified Duration Gap	0.07
% change in MVE	
200 bps change in interest rates	-10.20%
Limit	-20%

10 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 RBI Master circular on Basel-III Capital Regulations dated 01 July 2015, 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.

Basel III – Pillar 3 disclosures of India Branches for the period ended 31 March 2016 *(Continued)*

10 Counterparty Credit Risk *(Continued)*

Policies for securing collateral and establishing credit reserves

Despite these being a standard credit mitigant for OTC derivatives in most jurisdictions, 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. The Bank calculates a separate CVA for each counterparty to which the bank has 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 was implemented for capital adequacy purposes under Basel III in line with RBI Guidelines from 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. The Bank uses 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.

Central Counterparties

Whilst exchange traded derivatives have been cleared through central counterparties ('CCP's) for many years, recent regulatory initiatives designed to reduce systemic risk in the banking system are directing increasing volumes of OTC derivatives to be cleared through CCPs. The Bank has accordingly developed a risk appetite framework to manage risk on CCPs.

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.

Quantitative Disclosures

(Rs '000)

Particulars	At 31 March 2016	At 31 March 2015
Gross positive fair value of contracts	**83,598,179**	104,281,552
Netting benefits	**18,902,819**	17,887,158
Netted current credit exposure	**64,695,360**	86,394,394
Collateral held	–	–
Net derivatives credit exposure	**64,695,360**	86,394,394
Potential Future Exposure (PFE)	**127,131,052**	176,600,348
Measures for exposure at default, or exposure amount, under CEM.	**191,826,412**	262,994,742
Notional value of credit derivative hedges	–	–
Distribution of current credit exposure by types of credit exposure		
Current credit exposure – Interest Rates	**56,085,046**	71,776,593
Current credit exposure – Forex	**135,741,366**	191,218,149

Note: The above credit exposure excludes deals less than equal to 14 days.

11. Leverage Ratio

The leverage ratio requirement was introduced into the Basel III framework as a non-risk-based limit, to supplement risk-based capital requirements. It aims to constrain the build-up of excess leverage in the banking sector. As per RBI guidelines, the bank is required to maintain a minimum leverage ratio of 4.5%. The bank's leverage ratio is calculated as per RBI guidelines as follows:

Leverage Common disclosure: (Rs in Million)

		At 31March 2016	At 31 March 2015
	On-balance sheet exposures		
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	**1,326,843**	1,208,272
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	**(1,021)**	(7,873)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)**	**1,325,822**	1,200,399
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	64,896	86,780
5	Add-on amounts for PFE associated with all derivatives transactions	129,772	190,165
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	–	–
7	Deductions of receivables assets for cash variation margin provided in derivatives transactions	–	–
8	Exempted CCP leg of client-cleared trade exposures	–	–

Basel III – Pillar 3 disclosures of India Branches for the period ended 31 March 2016 *(Continued)*

11. Leverage Ratio *(Continued)*

Leverage Common disclosure: *(Continued)*

(Rs in Million)

		At 31March 2016	At 31 March 2015
9	Adjusted effective notional amount of written credit derivatives	–	–
10	Adjusted effective notional offsets and add-on deductions for written credit derivatives	–	–
11	**Total derivative exposures (sum of lines 4 to 10)**	**194,668**	276,944
	Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	**17,838**	81,262
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	–	–
14	CCR exposure for SFT assets	–	–
15	Agent transaction exposures	–	–
16	**Total securities financing transaction exposures (sum of lines 12 to 15)**	**17,838**	81,262
	Other off-balance sheet exposures		
17	Off-balance sheet exposure at gross notional amount	**1,053,929**	1,054,600
18	Adjustments for conversion to credit equivalent amounts	**(719,874)**	(689,674)
19	**Off-balance sheet items (sum of lines 17 and 18)**	**334,055**	364,926
	Capital and total exposures		
20	**Tier 1 capital**	**167,394**	144,033
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	**1,872,383**	1,923,531
	Leverage ratio		
22	**Basel III leverage ratio (per cent)**	**8.94%**	7.49%

Note: The final minimum leverage ratio for Banks in India will be stipulated by RBI after considering the final rules prescribed by the Basel Committee post parallel run by the end of 2017.

Comparison of accounting assets vs leverage ratio exposure measure:

(Rs in Million)

Sr No	Item	At 31March 2016	At 31 March 2015
1	Total consolidated assets as per published financial statements	1,409,577	1,376,313
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	–	–
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	–	–
4	Adjustments for derivative financial instruments	**129,772**	190,165
5	Adjustment for securities financing transactions (i.e. repos and similar secured lending)	–	–
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balancehseet exposures)	**334,055**	364,926
7	Other adjustments	**(1,021)**	(7,873)
	Total Exposure (point 21 in Table I)	**1,872,383**	1,923,531

12 Composition of Capital

(Rs. in Million)

	Basel III common disclosure template to be used durin the transition of regulatory adjustments (i.e. from April 1, 2013 to December 31, 2017)		**Amounts Subject to Pre-Basel III Treatment**	**Ref No**
	Common Equity Tier 1 capital: instruments and reserves			
1	Directly issued qualifying common share capital plus related stock surplus (share premium)	44,992	–	A
2	Retained earnings (incl.Statutory Reserves, Capital Reserves and Remittable Surplus retained for Capital to Risk-weighted Assets Ratio (CRAR))	119,854	–	B1+B2+B3+ B4+B5
3	Accumulated other comprehensive income (and other reserves)	3,569	–	C*45%
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)	–	–	

Basel III – Pillar 3 disclosures of India Branches for the period ended 31 March 2016 *(Continued)*

12 Composition of Capital ***(Continued)***

(Rs. in million)

	Basel III common disclosure template to be used durin 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	Ref No
6	Common Equity Tier 1 capital before regulatory adjustments	168,415	–	
	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	–	–	
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	1,021	–	
15	Defined-benefit pension fund net assets	–	–	
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	–	–	
17	Reciprocal cross-holdings in common equity	–	–	
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**	**1,021**	**–**	
29	**Common Equity Tier 1 capital (CET1)**	**167,394**	**–**	
	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)	–	–	

Basel III – Pillar 3 disclosures of India Branches for the period ended 31 March 2016 *(Continued)*

12 Composition of Capital ***(Continued)***

(Rs. in million)

	Basel III common disclosure template to be used durin 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**	**Ref No**
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)	–	–	
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 adequacy**[11]	**–**	**–**	
45	**Tier 1 capital (T1 = CET1 + AT1) (29 + 44a)**	**167,394**	**–**	
	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 (incl. eligible reserves)	7,439	–	D1 +D2
51	**Tier 2 capital before regulatory adjustments**	**7,439**	**–**	
	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)**	**7,439**	**–**	

Basel III – Pillar 3 disclosures of India Branches for the period ended 31 March 2016 *(Continued)*

12 Composition of Capital *(Continued)*

(Rs. in million)

	Basel III common disclosure template to be used durin 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	Ref No
58a	**Tier 2 capital reckoned for capital adequacy**	**7,439**	**–**	
58b	**Excess Additional Tier 1 capital reckoned as Tier 2 capital**		**–**	
58c	**Total Tier 2 capital admissible for capital adequacy (58a + 58b)**	**7,439**	**–**	
59	**Total capital (TC = T1 + T2) (45 + 58c)**	**174,833**	**–**	
	Risk Weighted Assets in respect of Amounts Subject to Pre-Basel III Treatment	–	–	
	of which:	–	–	
	of which:	–	–	
60	**Total risk weighted assets (60a + 60b + 60c)**	**1,093,279**	**–**	
60a	of which: total credit risk weighted assets	806,228	–	
60b	of which: total market risk weighted assets	179,417	–	
60c	of which: total operational risk weighted assets	107,634	–	
	Capital ratios			
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	15.31%	–	
62	Tier 1 (as a percentage of risk weighted assets)	15.31%	–	
63	Total capital (as a percentage of risk weighted assets)	15.99%	–	
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation and countercyclical buffer requirements, expressed as a percentage of risk weighted assets)	6.80%	–	
65	of which: capital conservation buffer requirement	0.625%	–	
66	of which: bank specific countercyclical buffer requirement	–	–	
67	of which: G–SIB buffer requirement	0.673%	–	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	15.31%	–	
	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)	–	–	

Basel III – Pillar 3 disclosures of India Branches for the period ended 31 March 2016 *(Continued)*

13 Composition of Capital – Reconciliation

(Rs Million)

		Balance sheet as in financial statements	Balance sheet under regulatory scope of consolidation	Reference No. DF-11
		As on reporting date	As on reporting date	
A	**Capital & Liabilities**			
i	Paid-up Capital	44,992	44,992	A
	Reserves & Surplus	143,549	143,549	
	a. Statutory Reserve	42,076	42,076	B1
	b. Capital Reserve - Surplus on sale of Immovable assets	3,738	3,738	B2
	c. Capital Reserves	13,261	13,261	B3
	d. Remittable surplus retained in India for CRAR purposes	59,361	59,361	B4
	e. Revaluation Reserve	7,931	7,931	C
	f. Investment Reserve	2,704	2,704	D1
	g. Specific Reserve	1,418	1,418	B5
	h. Balance in Profit & Loss Account	13,060	13,060	
	Minority Interest	–	–	
	Total Capital	**188,541**	**188,541**	
ii	Deposits	879,439	879,439	
	of which: Deposits from banks	49,130	49,130	
	of which: Customer deposits	830,309	830,309	
	of which: Other deposits (pl. specify)	–	–	
iii	Borrowings in India	114,027	114,027	
	of which: From RBI	102,390	102,390	
	of which: From banks	0	0	
	of which: From other institutions & agencies	11,637	11,637	
	Borrowings outside India	81,196	81,196	
	of which: Others (pl. specify)	–	–	
	of which: Capital instruments	–	–	
iv	Other liabilities & provisions	146,374	146,374	
	of which: Provisions towards Standard Assets	4,735	4,735	D2
	Total Capital and Liabilities	1,409,577	1,409,577	
B	**Assets**		–	
i	Cash and balances with Reserve Bank of India	35,037	35,037	
ii	Balance with banks and money at call and short notice	148,575	148,575	
iii	Investments:	534,255	534,255	
	of which: Government securities	424,002	424,002	
	of which: Other approved securities	–	–	
	of which: Shares	136	136	
	of which: Debentures & Bonds	51,329	51,329	
	of which: Subsidiaries/Joint Ventures/Associates	0	0	
	of which: Others (Commercial Papers, Mutual Funds etc.)	58,788	58,788	

Basel III – Pillar 3 disclosures of India Branches for the period ended 31 March 2016 *(Continued)*

13 Composition of Capital – Reconciliation *(Continued)*

(Rs Million)

		Balance sheet as in financial statements	**Balance sheet under regulatory scope of consolidation**	**Reference No. DF-11**
		As on reporting date	As on reporting date	
iv	Loans and advances	549,702	549,702	
	of which: Loans and advances to banks	1,956	1,956	
	of which: Loans and advances to customers	547,746	547,746	
v	Fixed assets	11,227	11,227	
vi	Other assets	130,781	130,781	
	of which: Goodwill and intangible assets	–	–	
	of which: Deferred tax assets	6,696	6,696	
vii	Goodwill on consolidation	–	–	
viii	Debit balance in Profit & Loss account	-	-	
	Total Assets	**1,409,577**	**1,409,577**	

14 Regulatory capital Instruments

The Bank has not issued any regulatory capital instruments in India.

15 Disclosure Requirements for Remuneration

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

16. Equities - Disclosure for Banking Book Positions

Investment in equity shares as at 31 March 2016 is Rs.136 million. This includes investment in shares of private limited companies held either for:

(i) business facilitation purpose;

(ii) acquired as part of Corporate Restructured Debt(CDR) package; or

(iii) in one instance investment in group subsidiary.

These investments are classified as 'Available for Sale'(AFS). All investments in equity shares are held in private limited companies. There are no quoted market prices for these securities. Accordingly these are valued at lower of cost or break-up value basis the latest available balance sheet.

Quantitative Disclosures

1. The value of equity investments (unquoted) as at 31 March 2016 is Rs.136 million.
2. All equity investments are held in private limited companies.
3. The cumulative realised gain on sale of shares is Rs.928 million as at 31 March 2016.
4. The unrealised gain or loss recognised in the balance sheet and not through the profit and loss account is nil.
5. The break-up value of unquoted equity investment as at 31 March 2016 is Rs.607 million. The difference between break-up value and current cost of equity investment is Rs.471 million.
6. Investment in equity included in Tier 1 and Tier 2 capital – nil.
7. These investments are risk weighted for capital adequacy purposes. The capital requirement for credit risk relating to these investments amounts to Rs.141 million.