The Hongkong and Shanghai Banking Corporation Limited

(Incorporated in Hong Kong SAR with limited liability)

Basel II – Pillar 3 disclosures of India Branches

For the year ended 31 March 2013

1 Scope of Application

The capital adequacy framework applies to The Hongkong and Shanghai Banking Corporation Limited – India Branches ("the Bank"). The Bank has a subsidiary, HSBC Agency (India) Private Limited, which is consolidated in line with AS 21 and full capital deduction is taken. The Bank does not have any other group company where a pro-rata consolidation is done or any deduction is taken. The Bank holds minority interests (2.07% shareholding) in a group entity HSBC Professional Services (India) Private Limited which is neither consolidated nor is capital deducted. The investment in this company is appropriately risk weighted.

(i) Capital deficiencies in all subsidiaries not included in the consolidation

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

(ii) Banks total interest in insurance entities

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

2 Capital Structure

(i) Composition of Tier 1 capital (Audited)

(Rs '000)

	As at **31 March 2013**	As at 31 March 2012
Capital	**44,991,660**	44,991,660
Reserves	**83,085,063**	74,937,775
Less: Deductions from Tier I Capital	**(7,271,808)**	(5,569,169)
Charge for Credit enhancement on Securitisation deal	**(35,614)**	(34,865)
Intangible Assets (Deferred Tax Asset)	**(5,865,852)**	(5,510,372)
Investment in subsidiaries in India	**(100)**	(100)
Debit Value Adjustments (DVA) (note 1)	**(1,370,242)**	-
Charge on account of Failed/Defaulted transactions	-	(23,832)
Total Tier I Capital	**120,804,915**	114,360,266

note 1: In line with the final guidelines on 'Implementation of Basel III Capital Regulations in India' dated 2 May 2012 the Bank has deducted DVA from Tier 1 capital (Refer para 5.6 (aa) of the financial statements).

(ii) Tier 2 capital (Audited)

(Rs '000)

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

2 Capital Structure *(Continued)*

(iii) Debt capital instruments in upper Tier 2 capital

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

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

There is no amount outstanding in respect of subordinated debt as at 31 March 2013.

(v) Other deductions from capital

There are no other deductions from capital.

(vi) Total eligible capital (Audited)

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

3 Capital Adequacy

The Bank's capital management framework is shaped by its structure, business model and strategic direction. There is a continuing need to focus on effective management of risk and commensurate capital to bear that risk. The Bank carefully assesses its growth opportunities relative to the capital available to support them, particularly in light of the economic environment and advent of Basel III. The Basel III capital rules would be effective from 1April2013 except for those relating to relating to Credit Valuation Adjustment (CVA) risk capital charge for over the counter derivatives. These guidelines would become effective from 1January2014.

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

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

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

(Rs '000)

	As at **31 March 2013**	As at 31 March 2012
I. Capital required for Credit Risk	**50,451,863**	49,801,501
- For portfolios subject to Standardised approach	**50,451,863**	49,801,501
II. Capital required for Market Risk (Standard Duration Approach)	**10,592,069**	11,155,228
- Interest rate risk	**9,778,262**	10,999,486
- Foreign exchange risk	**405,000**	99,000
- Equity risk	**75,251**	56,742
- Securitisation exposure	**333,556**	-
III. Capital required for Operational Risk (Basic Indicator Approach)	**8,217,768**	8,438,792
Total capital requirement (I + II + III)	**69,261,700**	69,395,721
Total capital funds of the Bank	**131,575,931**	123,705,909
Total risk weighted assets	**769,574,433**	771,061,350
Consolidated total capital ratio	**17.10%**	16.04%
Consolidated Tier I capital ratio	**15.70%**	14.83%

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

4 Credit risk:

a. General

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

<u>Strategy and Processes</u>

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

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

- Establish a separate Risk Management unit independent of business with a matrix of delegated approval authorities for the approval of credit risks.
- Establish and maintain the exposure norms policy. This policy delineates the Bank's maximum exposures to individual customers, customer groups and other risk concentrations. This policy also ensures compliance with the ceilings and lending guidelines relating to specific market sectors and industries.
- Establish and monitor the credit appetite in terms of grow / maintain and shrink sectors and minimum criteria that must be met by new customers.
- Constitute a Risk Management Committee ("RMC") consisting of senior executives, which reviews overall portfolio risks and key risks facing the Bank in India.
- Undertake independent review and objective assessment of the credit risk. All commercial non-bank credit facilities originated are subject to review prior to the facilities being committed to customers.
- Control exposures to banks and other financial institutions. The Group's credit and settlement risk limits to counterparties in the finance and government sectors are designed to optimise the use of credit availability and avoid excessive risk concentration.
- Manage exposures to debt securities by establishing controls in respect of the liquidity of securities held for trading and setting issuer limits for financial investments. Separate portfolio limits are established for asset-backed securities and similar instruments.
- Control cross-border exposures to manage country and cross-border risk through the imposition of country limits with sub-limits by maturity and type of business.

4 Credit risk: *(Continued)*

a. General *(Continued)*

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

- Maintain and develop HSBC's risk rating framework and systems in order to classify exposures meaningfully and facilitate focused management of the risks involved. Rating methodologies are based upon a wide range of financial analytics together with market data-based tools, which are core inputs to the assessment of customer risk. For larger facilities, while full use is made of automated risk rating processes, the ultimate responsibility for setting risk ratings rests with the final approving executive. Risk grades are reviewed frequently and amendments, where necessary, are implemented promptly.

Structure and Organisation

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

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

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

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

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

Non performing advances

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

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

4 Credit risk: *(Continued)*

a. General *(Continued)*

Non performing advances *(Continued)*

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

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

b. Disclosures for portfolios under the standardised approach

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

Domestic ECAIs for external ratings of Indian Corporates:

a) Credit Analysis and Research Limited;

b) CRISIL Limited;

c) India Ratings and Research Private Limited;

d) ICRA Limited; and

e) Brickwork Ratings India Private Limited.

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

The process used by the Bank to transfer public issue ratings onto comparable assets in the banking book is in line with the provisions advised in RBI's Prudential Guidelines on Capital Adequacy and Market Discipline issued on 2July2012.

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

Risk weight mapping of long term corporate ratings

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

4 Credit risk: *(Continued)*

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

Risk weight mapping of short term corporate ratings

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

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

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

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

a) Fitch;

b) Moodys; and

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

The process used by the Bank to transfer public issue ratings onto comparable assets in the banking book is in line with the provisions advised in RBI Guidelines.

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

Risk weight mapping of foreign banks

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

4 Credit risk: *(Continued)*

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

Risk weight mapping of foreign sovereigns

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

Risk weight mapping of foreign public sector entities

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

Risk weight mapping of non resident corporates

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

Policy for Collateral Valuation and Management

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

For mortgages, the credit policy clearly outlines the acceptable Loan to value ratio (LVR) for different types of properties. The maximum LVR offered to customers was capped at 80% of the mortgaged property since 01 April 2011, except if approved under a special lending authority.

The valuation of property is initiated through a bank-empanelled valuer who is an expert on the subject matter. Additionally, for loans exceeding INR 5 million, dual valuations are also initiated in order to have the benefit of a second opinion on the mortgaged property. The disbursal of the loan is handled through an empanelled lawyer who in exchange collects the security documents from the borrower. The property documents thus collected are attached to the credit file and sent to central archives where the same is stored in a secure manner.

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

4 Credit risk: *(Continued)*

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

Main Types of Collateral taken by HSBC

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

Main Types of Guarantor Counterparty and their Creditworthiness

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

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

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

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

(i) Total gross credit risk exposures

(Rs '000)

	As at **31 March 2013**	As at 31 March 2012
Fund based [Note 1]	**496,590,420**	518,733,716
Non fund based [Note 2]	**533,666,546**	613,473,880
Total	**1,030,256,966**	1,132,207,596

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

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

4 Credit risk: *(Continued)*

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

(ii) Geographical distribution of exposures

(Rs '000)

			As at 31 March 2013
	Fund based	**Non fund based**	**Total**
Overseas	-	-	-
Domestic	**496,590,420**	**533,666,546**	**1,030,256,966**
Total	**496,590,420**	**533,666,546**	**1,030,256,966**

(Rs '000)

			As at 31 March 2012
	Fund based	Non fund based	Total
Overseas	-	-	-
Domestic	518,733,716	613,473,880	1,132,207,596
Total	518,733,716	613,473,880	1,132,207,596

4 Credit risk: *(Continued)*

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

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

(Rs '000)

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

4 Credit risk: *(Continued)*

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

(iv) Residual contractual maturity breakdown of total assets

(Rs'000)

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

(v) Amount of NPAs (Gross)

(Rs'000)

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

(vi) Net NPA (audited)

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

4 Credit risk: *(Continued)*

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

(vii) NPA ratios

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

(viii) Movement of NPAs (audited)

(Rs'000)

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

(Rs'000)

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

(ix) Non performing investments (audited)

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

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

4 Credit risk: *(Continued)*

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

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

(Rs'000)

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

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

(Rs'000)

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

* Deduction represents amounts deducted from Capital Funds

4 Credit risk: *(Continued)*

c. Securitisation: disclosure for standardised approach

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

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

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

Valuation of securitization 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 derecognized upon sale if the true sale criteria are fully met and the bank surrenders control over the contractual rights that comprise the financial asset. In respect of credit enhancements provided or recourse obligations accepted by the Bank, appropriate provision/ disclosures is made in accordance with AS 29 – 'Provisions, contingent liability and contingent assets. Gains on securitisation, being the excess of consideration received over the book value of the loans and provisions against expected costs including servicing costs and the expected delinquencies are amortised over the life of the securities issued by the SPV. Losses are recognized immediately. Sale and transfer that do not meet the above criteria are accounted for as secured borrowings.
- Servicer: In case the Bank acts as servicer of the securitisation deal the fees charged for servicing the loans would be recognized on accrual basis.

4 Credit risk: *(Continued)*

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

- Investor: The investment in PTCs are accounted for as Available for Sale (AFS) investments and valued as per the note above. The loan assignment deals are classified as advances.

Securitisation regulatory treatment:

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

ECAI's used

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

a) Credit Analysis and Research Limited;

b) CRISIL Limited;

c) India Ratings and Research Private Limited; and

d) ICRA Limited.

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

(Rs'000)

	As of 31March 2013	
	Retail Loans	**Corporate Loans**
Total number of loan assets securitised during the year	-	-
Total book value of loan assets securitised during the year (Rs '000)	-	-
Sale consideration received for the securitised assets (Rs '000)	-	-
Gain on sale on account of securitisation during the year(Rs '000)	-	-
Gain on securitisation recognised in Income Statement (Rs '000)	**1,762**	-
The unamortised gain as at 31 March 2013 (Rs '000)	**2,219**	-
Outstanding value of services provided by way of Credit Enhancement (Rs '000)	**40,025**	-

4 Credit risk: *(Continued)*

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

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

(Rs'000)

	As of 31March 2012	
	Retail Loans	Corporate Loans
Total number of loan assets securitised during the year	-	-
Total book value of loan assets securitised during the year (Rs '000)	-	-
Sale consideration received for the securitised assets (Rs '000)	-	-
Gain on sale on account of securitisation during the year(Rs '000)	-	-
Gain on securitisation recognised in Income Statement (Rs '000)	1,586	2,157
The unamortised gain as at 31 March 2012 (Rs '000)	3,981	-
Outstanding value of services provided by way of Credit Enhancement (Rs '000)	40,025	-

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

(ii) Securitisation of impaired/past due assets

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

(iii) Loss recognised on securitisation of assets

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

(iv) Securitisation exposures retained or purchased

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

5 Market risk in trading book

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

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

Strategy and Processes

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

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

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

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

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

Market risk limits are reviewed annually.

Structure and Organisation of management of risk

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

5 Market risk in trading book *(Continued)*

Scope and nature of risk measurement, reporting and monitoring

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

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

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

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

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

(i) *Capital requirements for market risk*

(Rs'000)

Standardised Duration Approach	**As at 31 March 2013**	As at 31 March 2012
Interest rate risk	**9,778,262**	10,999,486
Foreign exchange risk	**405,000**	99,000
Equity risk	**75,251**	56,742
Securitisation exposure	**333,556**	-
Capital requirements for market risk	**10,592,069**	11,155,228

6 Operational risk

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

Strategy and Process

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

Structure and Organisation

The RMC of the Bank, constituted by the senior most executives, is responsible for the Operational Risk management of the Bank. The RMC meets monthly, or more frequently if required, to assess and monitor operational risks and, where appropriate, authorise mitigating actions. The RMC is supported by an independent Operational Risk Management team within the Risk function. Furthermore, senior representatives from each business and function are tasked with responsibility for ongoing operational risk management. The RMC is also supported by the Operational Risk Management Committee ("ORMC"), which is constituted by the Chief Risk Officer, Chief Financial Officer and the senior representatives of the businesses and functions responsible for operational risk management, which meets to discuss operational risk issues and operationalise mitigating actions authorized by the RMC.

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

Scope and Nature of Risk reporting, monitoring and mitigation

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

6 Operational risk *(Continued)*

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

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

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

7 Interest rate risk in the banking book (IRRBB)

The banking book is defined as:

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

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

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

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

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

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

Strategy and Process

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

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

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

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

Structure and Organisation

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

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

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

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

(i) Sensitivity to upward shocks

(Rs million)

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

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

(ii) Sensitivity to downward shocks

(Rs million)

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

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

(iii) Impact on Earnings (NII)

Parallel Movement in Yield curve

(Rs million)

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

(Rs million)

	Commercial Banking	ALCO Pool	Treasury	Sub-total	Intersegment Elimination	As at 31 March 2012
+100 Bps	2,445	309	(299)	2,455	(1,118)	1,337
-100 Bps	(2,219)	(307)	217	(2,309)	1,158	(1,151)

*Ramp Movements in Yield Curve**

(Rs million)

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

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

(iii) Impact on Earnings (NII) (Continued)

(Rs million)

	Commercial Banking	ALCO Pool	Treasury	Sub-total	Intersegment Elimination	As at 31 March 012
+100 Bps	1,502	166	(170)	1,498	(729)	769
-100 Bps	(1,340)	(85)	(17)	(1,442)	741	(701)

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

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