

# The Hongkong and Shanghai Banking Corporation Limited

(Incorporated in the Hong Kong SAR with limited liability)

## Basel II disclosures of the India Branches

for the period ended 30 September 2012

### 1 Scope of Application

The capital adequacy framework applies to The Hongkong and Shanghai Banking Corporation Limited – India Branches (“The Bank”). The Bank has a subsidiary, HSBC Agency (India) Private Limited, which is consolidated in line with AS 21 and full capital deduction is taken. The Bank does not have any other group company where a pro-rata consolidation is done or any deduction is taken. The group entity in which the Bank has a minority interest which is neither consolidated nor capital deducted is HSBC Professional Services (India) Private Limited. The investment in this company is appropriately risk weighted. As required by RBI for September reporting, the figures reported are on a standalone basis.

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

The aggregate amount of capital in HSBC Agency (India) Private Limited not included in consolidation and deducted from capital is Rs 0.2 Millions

(ii) *Banks total interest in insurance entities*

The Bank has no interests in any of the insurance entities of HSBC Holding plc.

### 2 Capital Structure

(i) *Composition of Tier 1 capital*

	<i>Rs Millions</i>
	<b>As at 30 September 2012</b>
Capital	44,992
Reserves	81,064
Innovative instruments	-
Other capital instruments	-
Amounts deducted from Tier 1 capital	(5,546)
<b>Total Tier 1 capital</b>	<b>120,510</b>

(ii) *Tier 2 capital*

The amount of Tier 2 capital (net of deductions) is Rs 9,345 Millions

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

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

# The Hongkong and Shanghai Banking Corporation Limited

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## Basel II disclosures of the India Branches (Continued)

for the period ended 30 September 2012

### 2 Capital Structure (Continued)

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

There is no amount outstanding in respect of subordinated debt as at 30 September 2012

(v) *Other deductions from capital*

There are no other deductions from capital.

(vi) *Total eligible capital*

The total eligible capital is Rs 129,855 Millions.

### 3 Capital Adequacy

(i) *Capital requirements for credit risk*

*Rs Millions*

	<b>As at 30 September 2012</b>
Portfolios subject to standardised approach	53,076
Securitisation exposures	-
<b>Capital requirements for credit risk</b>	<b>53,076</b>

(ii) *Capital requirements for market risk*

*Rs Millions*

<b>Standardised Duration Approach</b>	<b>As at 30 September 2012</b>
Interest rate risk	10,901
Foreign exchange risk	405
Equity risk	57
<b>Capital requirements for market risk</b>	<b>11,363</b>

(iii) *Capital requirements for operational risk*

The capital requirement for operational risk under the basic indicator approach is Rs.8,218 Millions.

# The Hongkong and Shanghai Banking Corporation Limited

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## Basel II disclosures of the India Branches (Continued)

for the period ended 30 September 2012

### 3 Capital Adequacy (Continued)

(iv) Capital ratios

	As at 30 September 2012
Consolidated total capital ratio	16.09%
Consolidated Tier 1 capital ratio	14.93%

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

### 4 Credit risk: general disclosures for all banks

(i) Total gross credit risk exposures

	<i>Rs Millions</i>		
	As at 30 September 2012		
	Fund based <sup>Note 1</sup>	Non fund based <sup>Note 2</sup>	Total
Gross Exposure	479,466	461,934	941,400

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

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

(ii) Geographical distribution of exposures

	<i>Rs Millions</i>		
	As at 30 September 2012		
	Fund based	Non fund based	Total
Overseas	-	-	-
Domestic	479,466	461,934	941,400
<b>Total</b>	<u>479,466</u>	<u>461,934</u>	<u>941,400</u>

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## Basel II disclosures of the India Branches (Continued)

for the period ended 30 September 2012

### 4 Credit risk: general disclosures for all banks (Continued)

(iii) Industry type distribution of exposures

As of 30<sup>th</sup> September 2012

Rs Millions

Industry	Fund based	Non fund based	Total
A. Mining and Quarrying (A.1 + A.2)	2,060	539	2,599
A.1 Coal	1,420	133	1,553
A.2 Others	640	505	1,145
B. Food Processing (Sum of B.1 to B.5)	5,300	3,165	8,465
B.1 Sugar	1,216	-	1,216
B.2 Edible Oils and Vanaspati	2,556	1,527	4,083
B.3 Tea	558	4	561
B.4 Coffee	-	135	135
B.5 Others	971	1,580	2,551
C. Beverages (excluding Tea & Coffee) and Tobacco (Sum of C.1 & C.2)	1,543	810	2,353
C.1 Tobacco and tobacco products	62	38	100
C.2 Others	1,481	911	2,392
D. Textiles ((Sum of D.1 to D.6)	7,234	1,234	8,468
D.1 Cotton	672	1	674
D.2 Jute	-	-	-
D.3 Handicraft/Khadi (Non Priority)	-	-	-
D.4 Silk	-	-	-
D5. Woollen	-	-	-
D6. Others	6,562	1,991	8,553
Out of D (i.e., Total Textiles) to Spinning Mills	-	-	-
E. Leather and Leather products	210	30	240
F. Wood and Wood Products	0	-	0
G. Paper and Paper Products	6,084	705	6,789
H. Petroleum (non-infra), Coal Products (non-mining) and Nuclear Fuels	165	4,449	4,615
I. Chemicals and Chemical Products (Dyes, Paints, etc.) (Sum of I.1 to I.4)	35,396	2,146	37,542
I.1 Fertilisers	2,316	849	3,164
I.2 Drugs and Pharmaceuticals	16,552	1,030	17,581
I.3 Petro-chemicals (excluding under Infrastructure)	7,744	1,694	9,438
I.4 Others	8,785	2,433	11,219
J. Rubber, Plastic and their Products	1,419	290	1,709

INTERNAL

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## Basel II disclosures of the India Branches (Continued)

for the period ended 30 September 2012

K. Glass & Glassware	3,325	181	3,506
L. Cement and Cement Products	2,234	532	2,767
M. Basic Metal and Metal Products (M.1 + M.2)	11,075	4,147	15,222
M.1 Iron and Steel	2,450	2,730	5,180
M.2 Other Metal and Metal Products	8,625	3,255	11,880
N. All Engineering (N.1 + N.2)	18,996	20,083	39,079
N.1 Electronics	4,077	1,795	5,873
N.2 Others	14,918	19,509	34,428
O. Vehicles, Vehicle Parts and Transport Equipments	19,629	10,368	29,997
P. Gems and Jewellery	202	4	205
Q. Construction	25,363	1,713	27,076
R. Infrastructure (Sum of R1 to R.4)	46,048	36,960	83,009
R.1 Transport ((Sum of R.1.1 to R.1.5)	781	3,910	4,691
R.1.1 Railways	-	-	-
R.1.2 Roadways	37	2,575	2,611
R.1.3 Aviation	-	-	-
R.1.4 Waterways	-	1,336	1,336
R.1.5 Others	744	-	744
R.2 Energy (Sum of R.2.1 to R.2.4)	3,705	6,957	10,662
R.2.1 Electricity (generation-transportation and distribution)	3,705	3,774	7,479
R.2.1.1 State Electricity Boards	-	-	-
R.2.1.2 Others	3,705	-	3,705
R.2.2 Oil (storage and pipeline)	-	-	-
R.2.3 Gas/LNG (storage and pipeline)	-	134	134
R.2.4 Others	-	3,688	3,688
R.3 Telecommunication	38,810	25,947	64,757
R.4 Others (Sum of R.4.1 to R.4.3)	2,753	172	2,925
R.4.1 Water sanitation	-	-	-
R.4.2 Social & Commercial Infrastructure	-	-	-
R.4.3 Others	2,753	746	3,499
S. Other Industries	108,608	396,029	504,637
All Industries (Sum of A to S)	294,892	44,272	339,164
Residuary Other Advances (to tally with gross advances)	184,574	-	184,574
<b>Total</b>	<b>479,466</b>	<b>461,934</b>	<b>941,400</b>

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## Basel II disclosures of the India Branches (Continued)

for the period ended 30 September 2012

### 4 Credit risk: general disclosures for all banks (Continued)

(iv) Residual contractual maturity breakdown of total asset

*Rs. Millions*

	<b>As at 30 September 2012</b>
1 day	118,462
2 to 7 days	35,705
8 to 14 days	32,084
15 to 28 days	76,970
29 days & upto 3 months	154,921
Over 3 months & upto 6 months	114,997
Over 6 months & upto 1 year	105,996
Over 1 year & upto 3 years	165,708
Over 3 years & upto 5 years	78,859
Over 5 years	143,546
<b>Total</b>	<b>*1,027,248</b>
*Total assets as per DSB-1	

(v) Amount of (NPA) Non-Performing Assets (Gross)

*Rs Millions*

	<b>As at 30 September 2012</b>
Substandard	2,106
Doubtful 1	1,949
Doubtful 2	1,473
Doubtful 3	490
Loss	401
<b>Total</b>	<b>6,418</b>

(vi) Net NPA:

The net NPA is Rs 1,337 Millions.

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## Basel II disclosures of the India Branches (Continued)

for the period ended 30 September 2012

### 4 Credit risk: general disclosures for all banks (Continued)

(vii) NPA ratios

	As at 30 September 2012
Gross NPAs to gross advances	1.78%
Net NPAs to net advances	0.37%

(viii) Movement of NPAs

	<i>Rs Millions</i>		
	Gross NPA's*	For the period ended 30 September 2012 Provision	Net NPA
Opening balance	7,201	4,998	2,203
Additions	496	362	134
Reductions (including write back/write off of excess provisions)	(1,279)	(279)	(1,000)
Closing balance	<u>6,418</u>	<u>5,080</u>	<u>1,337</u>

\*Net of Interest in suspense.

(ix) Non performing investments

The non-performing investment as at 30 September 2012 are Rs.5. This represents 3 equity share investments and 2 preference share investments which have each being written down to Re. 1.

(x) Movement of provisions for depreciation on investments

	<i>Rs Millions</i>
	For the period ended 30 September 2012
Opening balance	3,518
Provisions made during the period	-
Write Off	-
Write back of excess provisions	(2,186)
Closing balance	<u>1,332</u>

# The Hongkong and Shanghai Banking Corporation Limited

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## Basel II disclosures of the India Branches (Continued)

for the period ended 30 September 2012

### 5 Credit risk: disclosures for portfolios under the standardised approach

(i) Amount outstanding under various risk buckets (post Credit Risk Mitigant - CRM)

Rs Millions

	As at 30 September 2012
Below 100% risk weight	679,442
100% risk weight	326,928
Above 100% risk weight	52,918
Deductions*	(5,581)
Total	<u>1,053,708</u>
* Deduction represents amounts deducted from Capital Funds	

### 6 Credit risk mitigation: disclosures for standardised approaches

(i) Eligible financial collateral

The total exposure (including non-funded post Credit Conversion Factor - CCF) that is covered by eligible financial collateral, after the application of haircuts is Rs 73,809 Millions.



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## Basel II disclosures of the India Branches (Continued)

for the period ended 30 September 2012

### 7 Securitisation: disclosure for standardised approach

(i) *Details of securitisation of standard assets*

For the period ended 30 September 2012

	<i>Rs Millions</i>	
	<b>Retail Loans</b>	<b>Corporate Loans</b>
Total number of loan assets securitised	-	-
Total book value of loan assets securitised	-	-
Sale consideration received for the securitised assets	-	-
Gain on sale on account of securitisation	-	-
Gain on securitisation recognised in Income Statement	1	-
<b>The unamortized gain as at 30 Sep 2012</b>	<b>3</b>	<b>-</b>
Form and quantum (outstanding value) of services provided by way of Credit Enhancement	40	-

Notes:

1. The gain on sale on account of securitisation for corporate loans represents the difference between the sale consideration and the book value. The gain on sale on account of securitisation on retail loans represents the discounted value of the excess interest strip retained by the Bank.
- (ii) *Securitisation of impaired/past due assets*  
The Bank has not securitised any impaired/past due assets.
- (iii) *Loss recognised on securitisation of assets*  
The Bank has not recognised any losses during the current period for any securitisation deal.
- (iv) *Securitisation exposures retained or purchased*  
The Bank has not purchased any securitisation exposures nor does it have any retained securitisation exposure.

# The Hongkong and Shanghai Banking Corporation Limited

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## Basel II disclosures of the India Branches (Continued)

for the period ended 30 September 2012

### 8 Market risk in Trading book

(i) Capital requirements for market risk

	Rs Millions
	As at 30 September 2012
Interest rate risk	10,901
Foreign exchange risk	405
Equity position risk	57
Total	<u>11,363</u>

### 9 Interest rate risk in the banking book (IRRBB)

#### Impact on Economic Value.

(i) Sensitivity to upward shocks

IRRBB: Sensitivity to upwards 100 bps movement in Rs Millions					By currency	
Currency	INR	USD	EUR	GBP	Total	
Sensitivity	(1,780)	(70)	(1)	(6)	(1,856)	

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

(ii) Sensitivity to downward shocks

IRRBB: Sensitivity to downwards 100 bps movement in Rs. Millions					By currency	
Currency	INR	USD	EUR	GBP	Total	
Sensitivity	(598)	(116)	(0)	(38)	(753)	

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

*Note: The above table quantifies the economic value impact on the Banking Book (defined as per the Reserve Bank of India Capital Adequacy Guidelines section: 8.2) of a*

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## Basel II disclosures of the India Branches (Continued)

for the period ended 30 September 2012

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

100 bps up/downward instantaneous interest rate movement by currency , assuming no offsets across currencies

#### Impact on Earnings (NII)

Parallel Movement in Yield curve

Rs Millions

RS Millions	Commercial Banking	ALCO Pool	Treasury	Sub-total	Intersegment Elimination	Total (Oct-12 to Sept-13)
+100 Bps	1,983	189	180	2,351	(1,321)	1,030
-100 Bps	(1,806)	(190)	(194)	(2,190)	1,266	(923)

Ramp Movements in Yield Curve\*

Rs Millions

RS Millions	Commercial Banking	ALCO Pool	Treasury	Sub-total	Intersegment Elimination	Total (Oct-12 to Sept-13)
+100 Bps	1,169	87	173	1,429	(873)	555
-100 Bps	(1,070)	(88)	(171)	(1,329)	871	(459)

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

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