

The Hongkong and Shanghai Banking Corporation Limited

(Incorporated in Hong Kong SAR with limited liability)

Basel III – Pillar 3 disclosures of India Branches

For the period ended 30 September 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	1,177,522
HSBC Electronic Data Processing India Private Limited	Back office / data processing / call centre activities	3,554,678	25,227,246
HSBC Global Shared Services (India) Private Limited	Non-operating company	25,000	47,723
HSBC InvestDirect (India) Limited	Holding company for HSBC InvestDirect Group	712,713	4,955,434
HSBC InvestDirect Employees' Welfare Trust	Non-operating company	15	18,548
HSBC InvestDirect Sales & Marketing (India) Limited	Non-operating company	1000	34,717
HSBC InvestDirect Securities (India) Private Limited.	Retail securities broking and related activities (Discontinued)	Equity - 875,112 0.001% Compulsory Convertible Preference shares - 870,000	199,110
HSBC Professional Services (India) Private Limited	Providing internal audit services to Group companies	4,838	184,763
HSBC Securities and Capital Markets (India) Private Limited	Stock broking and corporate finance & advisory	Equity - 4,701,139 Preference – 250,000	6,178,377
HSBC Software Development (India) Private Limited	Software design, development and maintenance	327,264	22,556,334
Canara HSBC Oriental Bank of Commerce Life Insurance Company Limited	Life insurance	9,500,000	101,260,527

* As stated in the accounting balance sheet of the legal entity as at 31 March 2016

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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.

(iv) List of Group entities in India considered for consolidation under regulatory scope of consolidation:

The Bank being a branch does not have any direct subsidiaries nor does it hold any significant stake in any company. The RBI guidelines on Financial Regulation of Systemically Important NBFCs and Banks' Relationship vide circular ref. DBOD. No. FSD. BC.46 / 24.01.028/ 2006-07 December 12, 2006 read with 'Guidelines for consolidated accounting and other quantitative methods to facilitate consolidated supervision' vide circular ref. DBOD.No.BP.BC.72/ 21.04.018/2001-02 dated February 25, 2003 mandate coverage of the 'Consolidated Bank' (herein also referred to as 'HSBC – India Branch'). This includes, in addition to the Bank as a branch of Hongkong and Shanghai Banking Corporation Limited, the following wholly/majority owned non-banking finance company, which is a subsidiary of HSBC Holdings plc, held through intermediary holding companies:

(Rs '000)

Name of Entity /Country of Incorporation	Principle activity of the entity	Total balance sheet equity*	Total balance sheet assets*
HSBC InvestDirect Financial Services (India) Limited	Non-banking Finance company	1,462,847	4,376,500

HSBC InvestDirect Financial Services (India) Limited is registered with the Reserve Bank of India ('RBI') as a Non-Banking Financial Company ('NBFC').

As prescribed in the above guidelines, the Bank is not required to prepare consolidated financial statements. However, certain prudential guidelines apply on a Consolidated Bank basis, including that of capital adequacy computation under BASEL III guidelines. Accordingly, Hongkong and Shanghai Banking Corporation Limited - India Branches has been considered under regulatory scope of consolidation for the quantitative disclosures.

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Basel III – Pillar 3 disclosures of India Branches (*Continued*)

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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.

As per the transitional arrangement, at September 30, 2016, the Bank is required to maintain minimum capital requirement including capital buffers as mentioned below:

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Basel III – Pillar 3 disclosures of India Branches (Continued)

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2 Capital Adequacy & Structure (Continued)

a. Capital Adequacy

Regulatory Minimum in % as per RBI guidelines	As at September 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)	0.642%
Minimum Common Equity Tier I (i+ii+iii+iv)	6.77%
Minimum Tier I Capital	8.27%
Total Capital Adequacy Ratio	10.27%

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 has been 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.

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2 Capital Adequacy & Structure (Continued)

b. Capital Structure

(i) Composition of Tier I capital

(Rs '000)

	At 30 September 2016	At 31 March 2016
Capital	44,991,660	44,991,660
Eligible Reserves	123,423,391	123,423,391
Less: Deductions from Tier I Capital	(575,271)	(1,021,393)
- Intangible Assets (Deferred Tax Asset - DTA)(Note 1)	-	-
- Investment in subsidiaries in India	(111)	(111)
- Debit Value Adjustments (DVA)	(550,657)	(1,021,282)
- Defined Benefit Pension Fund Asset	(24,503)	-
Tier I Capital	167,839,779	167,393,657
Of Which Common Equity Tier I Capital	167,839,779	167,393,657
Additional Tier I Capital	-	-
Total Tier I Capital	167,839,779	167,393,657

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 4.16% 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 30 September 2016	At 31 March 2016
	-	-
General Loss Provisions / Other Eligible Reserves	7,447,441	7,438,746
Total Tier II Capital (Note 2)	7,447,441	7,438,746

Note 2: There is no debt capital instrument and subordinated debt outstanding as at 30 September 2016 included in Tier II Capital.

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2 Capital Adequacy & Structure (Continued)

b. Capital Adequacy (Continued)

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

	At 30 September 2016	At 31 March 2016
I. Capital required for Credit Risk	82,868,527	83,028,461
- For portfolios subject to Standardised approach	82,868,527	83,028,461
II. Capital required for Market Risk (Standard Duration Approach)	17,868,108	18,477,060
- Interest rate risk	15,481,326	16,305,104
- Foreign exchange risk	924,056	926,855
- Equity risk	149,950	140,638
- Securitisation exposure	1,312,775	1,104,463
III. Capital required for Operational Risk (Basic Indicator Approach)	11,241,989	11,084,606
Total capital requirement (I + II + III)	111,978,624	112,590,127
Total capital funds of the Bank	175,287,220	174,832,403
Total risk weighted assets	1,090,635,281	1,093,279,199
Total capital ratio	16.07%	15.99%
Common Equity Tier I Capital Ratio	15.39%	15.31%
Tier I capital ratio	15.39%	15.31%

(iii) Capital requirements for Consolidated entity:

	At 30 September 2016	At 31 March 2016
Consolidated Total Capital ratio	16.36%	15.99%
Consolidated Tier I Capital	15.68%	15.31%

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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).

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.

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Basel III – Pillar 3 disclosures of India Branches (*Continued*)

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3 Credit risk (*Continued*)

a. General (*Continued*)

Strategy and Processes (*Continued*)

- 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 RRP (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.
- 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.
- 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.
- Managing 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.
- Controlling of 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.

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Basel III – Pillar 3 disclosures of India Branches (*Continued*)

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3 Credit risk (*Continued*)

a. General (*Continued*)

Strategy and Processes (*Continued*)

- 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 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 CRO in India maintains a functional reporting line to the CRO in Hong Kong. The CRO of India further delegates lending authorities to WMR and RBWM Risk 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.

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Basel III – Pillar 3 disclosures of India Branches (Continued)

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3 Credit risk (Continued)

a. General (Continued)

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

(Rs '000)

	Fund based ^{Note 1}	Non fund based ^{Note 2}	At 30 September 2016 Total
Overseas	-	-	-
Domestic	744,134,767	451,762,793	1,195,897,560
Total	744,134,767	451,762,793	1,195,897,560

(Rs '000)

	Fund based ^{Note 1}	Non fund based ^{Note 2}	As at 31 March 2016 Total
Overseas	-	-	-
Domestic	795,500,976	446,638,086	1,242,139,062
Total	795,500,976	446,638,086	1,242,139,062

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.

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Basel III – Pillar 3 disclosures of India Branches (Continued)

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3 Credit risk (Continued)

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

(ii) Industry type distribution of exposures as at 30 September 2016

(Rs '000)

Industry	Fund based	Non Fund based	Total
Mining and Quarrying	126,601	10,794	137,395
Food Processing	4,849,278	1,445,749	6,295,027
Beverages and Tobacco	11,428,471	2,267,757	13,696,228
Textiles	5,268,566	2,102,356	7,370,922
Leather and Leather products	33,179	32	33,211
Wood and Wood Products	-	565	565
Paper and Paper Products	3,770,046	405,906	4,175,952
Petroleum	18,942	4,515,654	4,534,596
Chemicals and Chemical Products	65,872,029	27,489,759	93,361,788
Rubber, Plastic and their Products	6,881,828	2,658,265	9,540,093
Glass & Glassware	2,513,515	247,740	2,761,255
Cement and Cement Products	1,237,108	1,111,175	2,348,283
Basic Metal and Metal Products	13,949,876	12,135,522	26,085,398
All Engineering	34,009,658	38,709,363	72,719,021
Vehicles and Transport Equipments	21,902,575	17,597,259	39,499,834
Gems and Jewellery	226,355	1,993	228,348
Construction	16,639,920	1,119,633	17,759,553
Infrastructure	27,379,096	77,945,666	105,324,762
NBFCs and trading	54,428,367	17,590,211	72,018,578
Banking and finance	117,336,158	81,538,031	198,874,189
Computer Software	1,327,088	39,416,203	40,743,291
Professional Services	32,737,824	70,637,357	103,375,181
Other Industries	207,944,483	40,396,331	248,340,814
Retail	114,253,804	12,419,472	126,673,276
Total	744,134,767	451,762,793	1,195,897,560

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Basel III – Pillar 3 disclosures of India Branches (Continued)

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3 Credit risk (Continued)

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

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

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Basel III – Pillar 3 disclosures of India Branches (Continued)

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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 30 September 2016	At 31 March 2016
1 day	411,561,446	208,146,711
2 to 7 days	56,115,561	174,547,354
8 to 14 days	27,999,243	84,779,999
15 to 28 days	139,744,441	134,754,893
29 days & up to 3 months	140,392,897	135,842,120
Over 3 months and up to 6 months	82,452,197	107,026,679
Over 6 months and up to 1 year	64,397,883	147,988,870
Over 1 year and up to 3 years	142,869,209	112,308,089
Over 3 years and up to 5 years	115,695,921	87,237,238
Over 5 years	433,466,303	216,944,594
Total	1,614,695,101	1,409,576,548

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

(Rs '000)

	At 30 September 2016	At 31 March 2016
Substandard	4,311,281	1,869,059
Doubtful 1	2,674,937	2,375,865
Doubtful 2	1,862,382	1,885,410
Doubtful 3	1,269,907	1,232,100
Loss	988,266	995,426
Total	11,106,773	8,357,860

(v) Net NPAs

The net NPAs are Rs.3,544 million (as at 31 March 2016- Rs. 2,113 million). Please see table (vii) below.

(vi) NPA ratios

	At 30 September 2016	At 31 March 2016
Gross NPAs to gross advances	2.10%	1.50%
Net NPAs to net advances	0.68	0.38%

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3 Credit risk (Continued)

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

(vii) Movement of NPAs

(Rs '000)

	At 30 September 2016		
	Gross NPA's	Provision	Net NPA
Opening balance as at 1 April 2015	8,357,860	6,244,737	2,113,123
Additions during the period	4,250,204	1,651,177	2,599,027
Reductions during the period	(1,501,291)	(333,000)	(1,168,291)
Closing balance as at 31 March 2016	<u>11,106,773</u>	<u>7,562,914</u>	<u>3,543,859</u>

(Rs '000)

	At 31 March 2016		
	Gross NPA's	Provision	Net NPA
Opening balance as at 1 April 2014	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 Mar 2015	<u>8,357,860</u>	<u>6,244,737</u>	<u>2,113,123</u>

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

(x) Movement of provisions for depreciation on investments

(Rs '000)

	At 30 September 2016	At 31 March 2016
Opening balance	389	300
Provisions during the year	-	89
Write offs during the year	-	-
Write back of excess provisions during the year	-	-
Closing balance	<u>389</u>	<u>389</u>

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Basel III – Pillar 3 disclosures of India Branches (Continued)

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3 Credit risk (Continued)

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

(xi) Classification (by major industry) of NPA, Provision, past due loans as at 30 September 2016 and Specific Provision and Write off during the half year

(Rs '000)

	NPA	Past Due Loans	Provision	Specific Provision during the period	Write off during the period
1. Agriculture	-	-	-	-	-
1.1 Direct Agriculture	-	-	-	-	-
1.2 Indirect Agriculture	-	-	-	-	-
2. Advances to Industries sector	6,072,068	852,877	4,077,990	1,360,704	-
of which:					
2.1 Glass & Glassware	2,078,006	-	1,630,668	54,300	-
2.2 Infrastructure	436,755	-	436,755	-	-
2.3 Textiles	418,606	12,978	418,969	2,952	-
3. Services	2,370,831	470,430	2,371,166	124,099	-
of which:					
3.1 Trade	1,796,133	333,565	1,802,966	26,696	-
3.2 Computer Software	227,532	-	227,530	4,338	-
3.2 NBFC	217,779	-	213,642	397	-
4. Retail	2,663,875	3,043,334	1,113,759	166,374	337,346
Total	11,106,773	4,366,641	7,562,915	1,651,177	337,346

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3 Credit risk (Continued)

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

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	3,233,947	1,219,547	2,715,013	790,626	13,579
of which:					
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	2,352,361	175,498	2,359,922	132,692	158,553
of which:					
3.1 Trade	1,788,255	64,324	1,795,469	78,957	-
3.2 Computer Software	226,302	-	226,300	17,954	-
3.3 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

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3 Credit risk (Continued)

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

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

	(Rs '000)	
	At 30 September 2016	At 31 March 2016
Write offs	264,060	475,507
Recoveries	81,247	172,762

(xiii) Ageing of past due loans

	(Rs '000)	
	At 30 September 2016	At 31 March 2016
Overdue less than 30 days	3,319,717	3,111,246
Overdue for 30 to 60 days	768,276	379,632
Overdue for 60 to 90 days	278,648	88,166
Total	<u>4,366,641</u>	<u>3,579,044</u>

(xiv) Amount of NPAs and past due loans by significant geographic areas as at 30 September 2016

	(Rs '000)	
	NPA	Past Due Loans
Overseas	-	-
Domestic	11,106,773	4,366,644
Total	<u>11,106,773</u>	<u>4,366,641</u>

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	<u>8,357,860</u>	<u>3,579,044</u>

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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%

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4 Disclosures for portfolios under the standardised approach (Continued)

In August 2016, RBI issued guidelines for revising the risk weights for unrated exposures to Corporates, AFCs, and NBFC-IFCs having aggregate exposure from banking system > INR 200 crore to 150% from 100% w.e.f 30 June 2017. Further, for exposures to Corporates, AFCs and NBFC-IFCs having aggregate exposure to banking system > INR 100 crores which are currently rated but becomes unrated subsequently, the risk weights need to be increased to 150% with immediate effect.

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 Level of Common Equity Tier 1 capital (CET1) including applicable capital conservation buffer (CCB) (%) of the investee bank (where applicable)	Risk Weights%	
	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 ECAs for external ratings of Foreign Banks, Foreign Sovereigns, Foreign Public Sector Entities and Non-Resident Corporates:

- Fitch Ratings;
- Moody's; and
- 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%

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4 Disclosures for portfolios under the standardised approach (Continued)

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%

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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 disbursement of the loan is handled through an empanelled lawyer who in exchange collects the security documents from the borrower. The property documents thus collected are stored in central archives in a secure manner.

An in-house Property Price Index (PPI) has been developed which is used to measure the actual LVR of the properties financed by the Bank. The methodology for PPI development has been approved by 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.

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Basel III – Pillar 3 disclosures of India Branches (*Continued*)

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5. Policy for Collateral Valuation and Management (*Continued*)

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 (CGTSE), 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. 50,835 million as at 30 September 2016 million (as at 31 March 2016 : Rs. 53,393million).

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5. Policy for Collateral Valuation and Management (Continued)

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

	At 30 September 2016	At 31 March 2016
Below 100% risk weight	664,781,041	726,180,194
100% risk weight	413,636,193	404,365,425
Above 100% risk weight	58,699,667	51,476,734
Deductions*	(575,160)	(1,021,282)
Total	1,136,541,742	1,181,001,070

*Deduction represents amounts deducted from Tier I Capital

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 4.16% of net CET1 capital. Accordingly, there is no deduction as on 30 September 2016.

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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.

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.

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6. Securitisation disclosure for standardised approach (*Continued*)

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 May 2012, 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 2016: 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 2016: Nil).

(iv) *Securitisation exposures retained or purchased*

The Bank has made investments in Pass Through Certificates (PTCs) of Rs. 56,826 million as at 30 September 2016 (as at 31 March 2016 : Rs. 46,392 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.

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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.

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.

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7 Market risk in trading book (Continued)

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 30 September 2016	At 31 March 2016
Interest rate risk	15,481,326	16,305,104
Foreign exchange risk	924,056	926,855
Equity risk	149,950	140,638
Securitisation exposure	1,312,775	1,104,463
Capital requirements for market risk	17,868,108	18,477,060

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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.

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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.

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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.

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

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.

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) *Impact on Economic Value of Equity(EVE)*

USD Mn	September 16	March 16
Base		
Total EVE	3,454	1,909
Total Regulatory Capital	2,634	2,892
+200 bps		
EVE	3,221	1,629
EVE Sensitivity	(233)	(280)
EVE Sensitivity / Total Regulatory Capital	8.87%	9.68%
-200 bps		
EVE	3,688	2,206
EVE Sensitivity	233	297
EVE Sensitivity / Total Regulatory Capital	8.86%	10.28%

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(ii) Earnings (NII)

September 2016

	Commercial Banking	Treasury	Total
Projected NII for next 12 months	548,534	232,547	781,080
Parallel Movement in yield curve			
+100 bps	22,422	(24,814)	(2,391)
-100 bps	(21,581)	18,160	(3,422)
Ramp Movement in yield curve			
+100 bps	13,377	(11,357)	2,020
-100 bps	(26,464)	11,219	(15,245)

March 2016

	Commercial Banking	Treasury	Total
Projected NII for next 12 months	557,404	112,237	669,641
Parallel Movement in yield curve			
+100 bps	(40,795)	15,500	(25,295)
-100 bps	40,214	(19,888)	20,326
Ramp Movement in yield curve			
+100 bps	(27,333)	8,798	(18,535)
-100 bps	13,271	(10,991)	2,279

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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.

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.

10 Counterparty Credit Risk (*Continued*)

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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

Particulars	(Rs '000)	
	At 30 September 2016	At 31 March 2016
Gross positive fair value of contracts	70,074,791	83,598,179
Netting benefits	11,561,962	18,902,819
Netted current credit exposure	58,512,829	64,695,360
Collateral held	-	-
Net derivatives credit exposure	58,512,829	64,695,360
Potential Future Exposure (PFE)	123,288,438	127,131,052
Measures for exposure at default, or exposure amount, under CEM.	181,801,267	191,826,412
Notional value of credit derivative hedges	-	-
Distribution of current credit exposure by types of credit exposure		
Current credit exposure - Interest Rates	47,735,551	56,085,046
Current credit exposure – Forex	134,065,716	135,741,366

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

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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)

	At30 September 2016	At 31 March 2016	
On-balance sheet exposures			
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	1,353,828	1,326,843
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(575)	(1,021)
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	1,353,253	1,325,822
Derivative exposures			
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	58,704	64,896
5	Add-on amounts for PFE associated with all derivatives transactions	124,591	129,772
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	-	-
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)	183,295	194,668
Securities financing transaction exposures			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	202,164	17,838
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)	202,164	17,838
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	1,166,892	1,053,929
18	Adjustments for conversion to credit equivalent amounts	(800,762)	(719,874)
19	Off-balance sheet items (sum of lines 17 and 18)	366,131	334,055
Capital and total exposures			
20	Tier 1 capital	167,840	167,394
21	Total exposures (sum of lines 3, 11, 16 and 19)	2,104,842	1,872,383
Leverage ratio			
22	Basel III leverage ratio (per cent)	7.97%	8.94%

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.

11. Leverage Ratio (Continued)

Comparison of accounting assets vs leverage ratio exposure measure:

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(Rs in Million)

Sr No	Item	At 30 September 2016	At 31 March 2016
1	Total consolidated assets as per published financial statements	1,614,695	1,409,577
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	124,591	129,772
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-balance sheet exposures)	366,131	334,055
7	Other adjustments	(575)	(1,021)
	Total Exposure (point 21 in Table I)	2,104,842	1,872,383

Note: The consolidated leverage ratio is 8.14% as on 30 September 2016

12 Composition of Capital

(Rs in Million)

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	Basel III common disclosure template to be used during the transition of regulatory adjustments (i.e. from April 1, 2013 to December 31, 2017)	Basel-III Amounts	Basel-III Amounts under regulatory scope of consolidation	Reference with DF-13
	Common Equity Tier 1 capital: instruments and reserves			
1	Directly issued qualifying common share capital plus related stock surplus (share premium)	44,992	46,455	A
2	Retained earnings (incl. Statutory Reserves, Capital Reserves and Remittable Surplus retained for Capital to Risk-weighted Assets Ratio (CRAR))	119,854	122,165	B1+B2+B3+B4+B5+B6+B7
3	Accumulated other comprehensive income (and other reserves)	3,568	3,568	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)	-	-	
6	Common Equity Tier 1 capital before regulatory adjustments	168,415	172,188	
	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	-	-	
	Basel III common disclosure template to be used during the transition of regulatory adjustments (i.e. from April 1, 2013 to December 31, 2017)	Basel-III Amounts	Basel-III Amounts under regulatory scope of	Reference with DF-13

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Basel III – Pillar 3 disclosures of India Branches (Continued)

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			consolidation	
13	Securitisation gain on sale	-	-	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	551	551	
15	Defined-benefit pension fund net assets	25	25	
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	-	-	
	Basel III common disclosure template to be used during the transition of regulatory adjustments (i.e. from April 1, 2013 to December 31, 2017)	Basel-III Amounts	Basel-III Amounts under regulatory	Reference with DF-13

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Basel III – Pillar 3 disclosures of India Branches (Continued)

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			scope of consolidation	
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	575	575	
29	Common Equity Tier 1 capital (CET1)	167,840	171,612	
	Additional Tier 1 capital: instruments	-	-	
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus (31+32)	-	-	
31	of which: classified as equity under applicable accounting standards (Perpetual Non-Cumulative Preference Shares)	-	-	
32	of which: classified as liabilities under applicable accounting standards (Perpetual debt Instruments)	-	-	
33	Directly issued capital instruments subject to phase out from Additional Tier 1	-	-	
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in Group AT1)	-	-	
35	of which: instruments issued by subsidiaries subject to phase out	-	-	
36	Additional Tier 1 capital before regulatory adjustments	-	-	
	Additional Tier 1 capital regulatory adjustments	-	-	
37	Investments in own Additional Tier 1 instruments	-	-	
	Basel III common disclosure template to be used during the transition of regulatory adjustments (i.e. from April 1, 2013 to December 31, 2017)	Basel-III Amounts	Basel-III Amounts under regulatory	Reference with DF-13

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			scope of consolidation	
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)	167,840	171,612	
	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)	-	-	
	Basel III common disclosure template to be used during the transition of regulatory adjustments (i.e. from April 1, 2013 to	Basel-III Amounts	Basel-III Amounts under	Reference with DF-13

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	December 31, 2017)		regulatory scope of consolidation	
49	of which: instruments issued by subsidiaries subject to phase out	-	-	
50	Provisions (incl. eligible reserves)	7,447	7,457	D1 +D2
51	Tier 2 capital before regulatory adjustments	7,447	7,457	
	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	-	-	
	Basel III common disclosure template to be used during the transition of regulatory adjustments (i.e. from April 1, 2013 to December 31, 2017)	Basel-III Amounts	Basel-III Amounts under regulatory	Reference with DF-13

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			scope of consolidation	
58	Tier 2 capital (T2)	7,447	7,457	
58a	Tier 2 capital reckoned for capital adequacy	7,447	7,457	
58b	Excess Additional Tier 1 capital reckoned as Tier 2 capital		-	
58c	Total Tier 2 capital admissible for capital adequacy (58a + 58b)	7,447	7,457	
59	Total capital (TC = T1 + T2) (45 + 58c)	175,287	179,069	
	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)	1,090,635	1,094,614	
60a	of which: total credit risk weighted assets	807,113	811,091	
60b	of which: total market risk weighted assets	174,029	174,029	
60c	of which: total operational risk weighted assets	109,493	109,493	
	Capital ratios			
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	15.39%	15.68%	
62	Tier 1 (as a percentage of risk weighted assets)	15.39%	15.68%	
63	Total capital (as a percentage of risk weighted assets)	16.07%	16.36%	
	Basel III common disclosure template to be used during the transition of regulatory adjustments (i.e. from April 1, 2013 to December 31, 2017)	Basel-III Amounts	Basel-III Amounts under regulatory	Reference with DF-13

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			scope of consolidation	
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation and countercyclical buffer requirements, expressed as a percentage of risk weighted assets)	6.77%	6.77%	
65	of which: capital conservation buffer requirement	0.625%	0.625%	
66	of which: bank specific countercyclical buffer requirement	-	-	
67	of which: G-SIB buffer requirement	0.642%	0.642%	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	15.39%	15.68%	
	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)	-	-	

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	Basel III common disclosure template to be used during the transition of regulatory adjustments (i.e. from April 1, 2013 to December 31, 2017)	Basel-III Amounts	Basel-III Amounts under regulatory scope of consolidation	Reference with DF-13
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)	-	-	

Note: There are no amounts subject to pre-Basel III treatment.

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13 Composition of Capital – Reconciliation

(Rs Million)

		Balance sheet as in financial statements	Balance sheet under regulatory scope of consolidation	Reference No.
				DF-12
		As on reporting date	As on reporting date	
A	Capital & Liabilities			
I	Paid-up Capital	44,992	46,455	A
	Reserves & Surplus	154,143	156,454	
	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	13,262	13,391	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	1,648	B5
	h. Balance in Profit & Loss Account	23,654	23,654	
	i. General Reserve	-	17	B6
	j. Security Premium	-	1,935	B7
	Minority Interest	-	-	

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		Balance sheet as in financial statements	Balance sheet under regulatory scope of consolidation	Reference No.
	Total Capital	199,135	202,908	
ii	Deposits	1,185,242	1,185,242	
	of which: Deposits from banks	47,358	47,358	
	of which: Customer deposits	1,137,884	1,137,884	
	of which: Other deposits (pl. specify)	-	-	
iii	Borrowings in India	65,077	65,077	
	of which: From banks	0	0	
	of which: From other institutions & agencies	-	-	
	Borrowings outside India	65,077	65,077	
	of which: Others (pl. specify)	-	-	
	of which: Capital instruments	-	-	
Iv	Other liabilities & provisions	165,242	165,330	
	of which: Provisions towards Standard Assets	4,744	4,753	D2
	Total Capital and Liabilities	1,614,695	1,618,557	
B	Assets		-	
I	Cash and balances with Reserve Bank of India	45,576	45,836	
li	Balance with banks and money at call and short notice	303,591	303,591	

The Hongkong and Shanghai Banking Corporation Limited

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Basel III – Pillar 3 disclosures of India Branches (Continued)

For the period ended 30 September 2016

		Balance sheet as in financial statements	Balance sheet under regulatory scope of consolidation	Reference No.
Iii	Investments:	596,719	597,291	
	of which: Government securities	491,373	491,373	
	of which: Other approved securities	-	-	
	of which: Shares	136	136	
	of which: Debentures & Bonds	46,037	46,037	
	of which: Subsidiaries / Joint Ventures / Associates	0	0	
	of which: Others (Commercial Papers, Mutual Funds etc.)	59,172	59,172	
	Iv	Loans and advances	520,420	523,426
of which: Loans and advances to banks		179	179	
of which: Loans and advances to customers		520,241	520,241	
V	Fixed assets	10,916	10,918	
vi	Other assets	137,474	137,494	
	of which: Goodwill and intangible assets	-	-	
	of which: Deferred tax assets	6,696	6,711	
vii	Goodwill on consolidation	-	-	
viii	Debit balance in Profit & Loss account	-	-	
	Total Assets	1,614,695	1,618,557	

The Hongkong and Shanghai Banking Corporation Limited

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Basel III – Pillar 3 disclosures of India Branches (Continued)

For the period ended 30 September 2016

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 30 September 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 30 September 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 Nil as at 30 September 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 30 September 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.150 million.