

# 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 2013

### 1 Scope of Application

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

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

The aggregate amount of capital held by the Bank in HSBC Agency (India) Private Limited of 0.2M 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)

<b>Name of Entity /Country of Incorporation</b>	<b>Principle activity of the entity</b>	<b>Total balance sheet equity*</b>	<b>Total balance sheet assets*</b>
HSBC Asset Management (India) Private Limited	Asset management/Portfolio management	542,000	1,263,281
HSBC Securities and Capital Markets (India) Private Limited	Stock broking and Corporate finance & Advisory	Equity - 4,701,139 Preference - 250,000	6,549,953
HSBC Electronic Data Processing (India) Private Limited	Back office / Data processing / Call centre activities	3,554,678	21,152,182
HSBC Professional Services (India) Private Limited	Providing internal audit services to Group companies	4,838,000	119,200
HSBC Software Development (India) Private Limited	Software design, Development and maintenance	327,260	23,330,000
HSBC Bank Oman S.A.O.G	Banking branch	Omani Riyals 200.031 Mio (INR equivalent 28,570,000)	2,524,100
Canara HSBC Oriental Bank of Commerce Life Insurance Company Limited	Life insurance	9,500,000	78,227,798
HSBC InvestDirect (India) Limited (HIDL)	Holding company for HIDL Group.	712,712.73	4,970,198

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For the period ended 30 September 2013

HSBC InvestDirect Financial Services (India) Limited	Non-banking Finance company.	1,462,847.20	5,784,020
HSBC InvestDirect Securities (India) Limited.	Retail securities broking and related activities (Discontinued).	Equity - 575,112.49 0.001% Compulsory Convertible Preference shares - 870,000	920,800
HSBC InvestDirect Academy for Insurance and Finance Limited	Non-operating company	20,000	44,292
HSBC InvestDirect Distribution Services (India) Limited	Non-operating company	100,000	48,306
HSBC InvestDirect Employees' Welfare Trust	Non-operating company	15	31,092
HSBC InvestDirect Sales & Marketing (India) Limited	Non-operating company	50,000	35,200

\* As stated in the accounting balance sheet of the legal entity as at 30 September 2013

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

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

## 2 Capital Structure

### (i) Composition of Tier 1 capital

	(Rs '000)
	As at
	<b>30 September 2013</b>
Capital	44,991,660
Reserves	83,085,063
<b>Less: Deductions from Tier I Capital</b>	<b>(7,607,786)</b>
- Intangible Assets ( Deferred Tax Asset)	(5,865,851)
- Investment in subsidiaries in India	(200)
- Debit Value Adjustments (DVA) (note 1)	(1,684,076)
- Defined Benefit Pension Fund Asset	(57,659)
<b>Total Tier I Capital</b>	<b>120,468,936</b>

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

### (ii) Tier 2 capital

	(Rs '000)
	As at
	<b>30 September 2013</b>
Property revaluation reserves	3,395,054
General Loss Reserves and Investment Reserves	7,411,676
<b>Total Tier II Capital</b>	<b>10,806,729</b>

# 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 2013*

### **2 Capital Structure *(Continued)***

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

No debt capital instruments are included in Tier 2 capital.

*(iv) Subordinated debt in Tier 2 capital*

There is no amount outstanding in respect of subordinated debt as at 30 September 2013.

*(v) Other deductions from capital*

There are no other deductions from capital.

*(vi) Total eligible capital*

The total eligible capital is Rs 131,276M.

### **3 Capital Adequacy**

The Bank's capital management framework is shaped by its structure, business model and strategic direction. There is a continuing need to focus on effective management of risk and commensurate capital to bear that risk. The Bank carefully assesses its growth opportunities relative to the capital available to support them, particularly in light of the economic environment and advent of Basel III. The Basel III capital rules became effective from 1 April 2013 except for those relating to the Credit Valuation Adjustment (CVA) risk capital charge for over the counter derivatives. These rules become effective from 1 January 2014.

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

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

# 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 2013

### 3 Capital Adequacy (Continued)

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

	(Rs '000)
	As at
	30 September 2013
<b>I. Capital required for Credit Risk</b>	<b>55,501,583</b>
- For portfolios subject to Standardised approach	55,501,583
<b>II. Capital required for Market Risk (Standard Duration Approach)</b>	<b>10,438,803</b>
- Interest rate risk	9,643,552
- Foreign exchange risk	720,000
- Equity risk	75,251
- Securitisation exposure	-
<b>III. Capital required for Operational Risk (Basic Indicator Approach)</b>	<b>8,402,010</b>
<b>Total capital requirement (I + II + III)</b>	<b>74,342,396</b>
<b>Total capital funds of the Bank</b>	<b>131,275,666</b>
<b>Total risk weighted assets</b>	<b>826,026,627</b>
<b>Consolidated total capital ratio</b>	<b>15.89%</b>
<b>Consolidated Tier I capital ratio</b>	<b>14.58%</b>

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

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

*For the period ended 30 September 2013*

### **4 Credit risk:**

#### **a. General**

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

#### **Strategy and Processes**

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

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

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

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

For the period ended 30 September 2013

### 4 Credit risk: (*Continued*)

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

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

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

##### **Structure and Organisation**

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

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

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

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

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

##### **Non performing advances**

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

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

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

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### 4 Credit risk: (Continued)

#### a. General (Continued)

##### Non performing advances (Continued)

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

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

#### b. Disclosures for portfolios under the standardised approach

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

Domestic ECAIs for external ratings of Indian Corporates:

- a) Credit Analysis and Research Limited;
- b) CRISIL Limited;
- c) India Ratings and Research Private Limited;
- d) ICRA Limited; and
- e) Brickwork Ratings India Private Limited.

The Bank used the ratings issued by the ECAIs (for both long term and short term facilities) to risk weight both funded as well as non-funded exposures 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's Prudential Guidelines on Capital Adequacy and Market Discipline issued on 2 July 2012.

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

Risk weight mapping of long term corporate ratings

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

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

For the period ended 30 September 2013

### 4 Credit risk: (Continued)

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

Risk weight mapping of short term corporate ratings

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

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

Capital to Risk weighted Assets Ratio (CRAR)%	Scheduled Banks	Other Banks
> 9	20%	100%
6 to < 9	50%	150%
3 to < 6	100%	250%
0 < 3	150%	350%
Negative	625%	625%

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

- Fitch;
- Moodys; and
- Standard & Poor's (S & P)

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

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

Risk weight mapping of foreign banks

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



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

For the period ended 30 September 2013

### 4 Credit risk: (Continued)

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

Risk weight mapping of foreign sovereigns

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

Risk weight mapping of foreign public sector entities

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

Risk weight mapping of non resident corporates

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

#### **Policy for Collateral Valuation and Management**

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

For mortgages, the credit policy clearly outlines the acceptable Loan to value ratio (LVR) for different types of properties. The maximum LVR offered to customers was capped at 80% of the mortgaged property since 1 April 2011, except if approved under a special lending authority.

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

INM has developed an in-house Property Price Index (PPI) which is used to measure the actual LVR of the properties financed by the Bank. The methodology for PPI development has been approved by Risk and refreshed every 6 months. However, should a loan become a non-performing asset (NPA), a fresh valuation is initiated through the bank-empanelled valuer and the provisions applicable are calculated accordingly.

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

For the period ended 30 September 2013

### 4 Credit risk: (Continued)

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

##### Main Types of Collateral taken by HSBC

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

##### Main Types of Guarantor Counterparty and their Creditworthiness

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

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

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

The total exposure (including non-funded post Credit Conversion Factors) that is covered by eligible financial collateral, after the application of haircuts is Rs. 44,140M.

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

			(Rs '000)
	Fund based <sup>Note 1</sup>	Non fund based <sup>Note 2</sup>	As at 30 September 2013 Total
Overseas	-	-	-
Domestic	469,285,291	706,669,178	1,175,954,469
<b>Total</b>	<b>469,285,291</b>	<b>706,669,178</b>	<b>1,175,954,469</b>

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)

For the period ended 30 September 2013

### 4 Credit risk: (Continued)

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

##### (ii) Industry type distribution of exposures as at 30 September 2013

(Rs '000)

Industry	Fund based	Non Fund based	Total
Mining and Quarrying	989,267	1,060,745	2,050,012
Food Processing	4,380,148	1,255,390	5,635,538
Beverages and Tobacco	1,023,500	1,707,265	2,730,765
Textiles	7,400,131	5,409,887	12,810,018
Leather and Leather products	261,012	263	261,274
Wood and Wood Products	-	22,037	22,037
Paper and Paper Products	6,415,860	2,373,970	8,789,830
Petroleum	66,253	37,169,655	37,235,908
Chemicals and Chemical Products	44,951,596	42,961,271	87,912,867
Rubber, Plastic and their Products	4,735,010	1,560,755	6,295,766
Glass & Glassware	3,144,105	1,759,775	4,903,880
Cement and Cement Products	3,756,254	1,850,797	5,607,051
Basic Metal and Metal Products	9,906,842	28,905,130	38,811,972
All Engineering	15,596,781	41,517,450	57,114,230
Vehicles and Transport Equipments	15,255,875	14,356,750	29,612,625
Gems and Jewellery	405,925	-	405,925
Construction	12,636,572	3,538,105	16,174,678
Infrastructure	24,176,857	42,027,931	66,204,788
NBFCs and trading	18,486,616	1,374,297	19,860,913
Banking and finance	3,695,001	266,387,713	270,082,714
Computer Software	182,239	19,969,533	20,151,772
Other Industries	211,841,603	175,348,446	387,190,049
Retail	79,977,843	8,663,643	88,641,486
<b>Total</b>	<b>469,285,291</b>	<b>706,669,178</b>	<b>1,175,954,469</b>

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

For the period ended 30 September 2013

### 4 Credit risk: (Continued)

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

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

	(Rs '000)
	As at
	<b>30 September 2013</b>
1 day	146,617,047
2 to 7 days	7,046,347
8 to 14 days	34,994,248
15 to 28 days	81,131,632
29 days & up to 3 months	188,150,975
Over 3 months and up to 6 months	168,213,527
Over 6 months and up to 1 year	144,529,203
Over 1 year and up to 3 years	192,652,384
Over 3 years and up to 5 years	93,376,382
Over 5 years	169,086,986
<b>Total</b>	<b>1,225,798,731</b>

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

	(Rs '000)
	As at
	<b>30 September 2013</b>
Substandard	1,180,332
Doubtful 1	2,396,219
Doubtful 2	992,908
Doubtful 3	1,209,829
Loss	778,824
<b>Total</b>	<b>6,558,112</b>

##### (v) Net NPA

The net NPA is Rs 1,222M. Please see table (vii) below.

##### (vi) NPA ratios

	As at
	<b>30 September 2013</b>
Gross NPAs to gross advances	1.86%
Net NPAs to net advances	0.35%

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

For the period ended 30 September 2013

### 4 Credit risk: (Continued)

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

##### (vii) Movement of NPAs

(Rs '000)

	As at 30 September 2013		
	Gross NPA's	Provision	Net NPA
Opening balance as at 1 April 2013	6,408,323	5,218,153	1,190,070
Additions during the period	1,211,800	193,740	1,018,060
Reductions during the period	(1,062,011)	(75,854)	(986,057)
Closing balance as at 30 September 2013	<b>6,558,112</b>	<b>5,336,039</b>	<b>1,222,073</b>

##### (viii) Non performing investments

Non performing investments as at 30 September 2013 are Rs. 6.

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

##### (ix) Movement of provisions for depreciation on investments (audited)

(Rs '000)

	As at 30 September 2013
Opening balance	1,097,728
Provisions during the year	1,252,195
Write offs during the year	-
Write back of excess provisions during the year	-
MTM on hedging swaps reclassified as trading swaps as at 30 September 2013	-
<b>Closing balance</b>	<b><u>2,349,923</u></b>

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

(Rs '000)

	As at 30 September 2013
Below 100% risk weight	1,049,841,341
100% risk weight	347,947,230
Above 100% risk weight	28,267,723
Deductions*	(7,607,786)
Total	<b><u>1,418,448,507</u></b>

\* Deduction represents amounts deducted from Tier I Capital

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

*For the period ended 30 September 2013*

### **4 Credit risk: (Continued)**

#### **c. Securitisation: disclosure for standardised approach**

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

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

For the period ended 30 September 2013

### 4 Credit risk: (Continued)

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

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

#### Securitisation regulatory treatment:

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

#### ECAI's used

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

- a) Credit Analysis and Research Limited;
  - b) CRISIL Limited;
  - c) India Ratings and Research Private Limited; and
  - d) ICRA Limited.
- (i) *Details of securitisation of standard assets*

(Rs '000)

	As at 30 September 2013	
	Retail Loans	Corporate Loans
Total number of loan assets securitised during the year	-	-
Total book value of loan assets securitised during the year (Rs '000)	-	-
Sale consideration received for the securitised assets (Rs '000)	-	-
Gain on sale on account of securitisation during the year (Rs '000)	-	-
Gain on securitisation recognised in Income Statement (Rs '000)	1,762	-
The unamortised gain as at 31 March 2013 (Rs '000)	2,219	-
Outstanding value of services provided by way of Credit Enhancement (Rs '000)	40,025	-

# The Hongkong and Shanghai Banking Corporation Limited

*(Incorporated in Hong Kong SAR with limited liability)*

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

*For the period ended 30 September 2013*

### **4 Credit risk: (*Continued*)**

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

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

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

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

*(iii) Loss recognised on securitisation of assets*

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

*(iv) Securitisation exposures retained or purchased*

The Bank has made investments in Pass Through Certificates (PTCs) of Rs. 20,402M as at 30 September 2013. 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.



# The Hongkong and Shanghai Banking Corporation Limited

*(Incorporated in Hong Kong SAR with limited liability)*

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

*For the period ended 30 September 2013*

### **5 Market risk in trading book**

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

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

#### **Strategy and Processes**

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

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

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

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

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

Market risk limits are reviewed annually.

#### **Structure and Organisation of management of risk**

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

# The Hongkong and Shanghai Banking Corporation Limited

(Incorporated in Hong Kong SAR with limited liability)

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

For the period ended 30 September 2013

### 5 Market risk in trading book (Continued)

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

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

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

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

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

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

(i) *Capital requirements for market risk*

	<i>(Rs ‘000)</i>
<b>Standardised Duration Approach</b>	As at
	<b>30 September 2013</b>
Interest rate risk	9,643,552
Foreign exchange risk	720,000
Equity risk	75,251
Securitisation exposure	-
<b>Capital requirements for market risk</b>	<b>10,438,803</b>

# The Hongkong and Shanghai Banking Corporation Limited

*(Incorporated in Hong Kong SAR with limited liability)*

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

*For the period ended 30 September 2013*

### **6 Operational risk**

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

#### **Strategy and Process**

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

#### **Structure and Organisation**

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

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

#### **Scope and Nature of Risk reporting, monitoring and mitigation**

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

# The Hongkong and Shanghai Banking Corporation Limited

*(Incorporated in Hong Kong SAR with limited liability)*

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

*For the period ended 30 September 2013*

### **6 Operational risk (*Continued*)**

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

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

A regular report on operational losses is made to the Bank's senior management through the RMC. A consolidated summary and scorecard of the operational loss incidents affecting the key businesses is shared with the Bank's senior management on a bi-monthly basis and significant loss events, gaps, mitigants etc are discussed.

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

The banking book is defined as:

- i) Underlying value of assets and liabilities as well as off-balance-sheet instruments that are managed (transferred to) Treasury via the Funds Transfer Pricing mechanism.
- ii) Investments held in the available-for-sale portfolio in line with general accounting principles.
- iii) Funding transactions to manage the liquidity of the bank.

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

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

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

#### **Strategy and Process**

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

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

# The Hongkong and Shanghai Banking Corporation Limited

(Incorporated in Hong Kong SAR with limited liability)

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

For the period ended 30 September 2013

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

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

#### Structure and Organisation

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

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

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

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

#### (i) Sensitivity to upward shocks

(Rs '000)

	As at
IRRBB: Sensitivity to upwards 100 bps movement in interest rates by currency	<b>30 September 2013</b>
INR	(2,090,407)
USD	(18,539)
EUR	2,582
Other FCY	3,612
<b>Total</b>	<b>(2,102,482)</b>

# The Hongkong and Shanghai Banking Corporation Limited

(Incorporated in Hong Kong SAR with limited liability)

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

For the period ended 30 September 2013

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

#### (ii) Sensitivity to downward shocks

(Rs '000)

	As at
IRRBB: Sensitivity to downwards 100 bps movement in interest rates by currency	<b>30 September 2013</b>
INR	(1,450,933)
USD	(65,267)
EUR	(183)
Other FCY	(9,747)
<b>Total</b>	<b>(1,526,130)</b>

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

#### (iii) Impact on Earnings (NII)

##### Parallel Movement in Yield curve

(Rs '000)

	Commercial Banking	ALCO Pool	Treasury	Sub-total	Intersegment Elimination	As at 30 Sept 2013
+100 Bps	1,887,417	399,867	(293,986)	1,993,298	(1,608,062)	385,236
-100 Bps	(1,879,330)	(399,986)	309,609	(1,969,706)	1,473,898	(495,808)

##### Ramp Movements in Yield Curve\*

(Rs '000)

	Commercial Banking	ALCO Pool	Treasury	Sub-total	Intersegment Elimination	As at 30 Sept 2013
+100 Bps	1,052,730	201,803	61,392	1,315,925	(1,128,772)	187,153
-100 Bps	(1,006,805)	(201,922)	(35,608)	(1,244,335)	1,018,285	(226,050)

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

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

# The Hongkong and Shanghai Banking Corporation Limited

(Incorporated in Hong Kong SAR with limited liability)

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

For the period ended 30 September 2013

### 8 Counterparty Credit Risk

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

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

Counterparty credit risk arising from 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 foreign exchange, interest rates, or equity contracts. An economic loss occurs if the transaction or portfolio of transactions with the counterparty has a positive economic value at the time of default.

As per the Master Circular - Prudential Guidelines on Capital Adequacy and Market Discipline - New Capital Adequacy Framework (NCAF) of RBI dated 1 July 2013, banks are expected to use the standardised method for computation of counterparty credit exposure using the Current Exposure Method (CEM) for market related off balance sheet exposures. Under this method the exposure on all the derivative contracts is calculated as the sum of current credit exposure/replacement cost i.e. the sum of the positive MTM of the contracts (negative MTMs are to be ignored) and the potential future exposure (PFE) which is determined based on the 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 replacement cost to arrive at the final exposure at default.

Bilateral netting of counterparty credit exposures, in derivative contracts, i.e bilateral netting of mark-to-market (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.

We assess total economic capital requirements at Group level for the risk by utilising the embedded operational infrastructure used for the Pillar 1 capital calculation, together with an additional suite of models that take into account, in particular:

- the increased level of confidence required to meet our strategic goals (99.95%); and
- internal assessments of diversification of risks within our portfolios and, similarly, any concentrations of risk that arise.

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

#### **Policies for securing collateral and establishing credit reserves**

The Bank does not currently have Credit Support Annexures (CSAs) in place with its counterparties, despite these being a standard credit mitigant for OTC derivatives across the Group, because market practice in this respect is still evolving in India. The bank has started the process to negotiate the CSA with some counterparties.

# The Hongkong and Shanghai Banking Corporation Limited

(Incorporated in Hong Kong SAR with limited liability)

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

For the period ended 30 September 2013

### 8 Counterparty Credit Risk (Continued)

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, and we may not receive the full market value of the transactions. We calculate a separate CVA for each counterparty to which we have exposure. The adjustment aims to calculate the potential loss arising from the portfolio of derivative transactions against each third party, based upon a modeled expected positive exposure profile, including allowance for credit risk mitigants such as netting agreements and Credit Support Annexes ('CSA's).

The bank computes a CVA for its markets related off balance sheet exposures and takes it to the profit and loss account for financial reporting purposes. However, the implementation of the regulatory CVA charge for capital adequacy purposes under Basel III has been deferred by RBI to 1 April 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 mark-to-market value of the underlying transaction. Examples of Wrong Way Risk transactions are - where the counterparty is resident and/or incorporated in a higher-risk country and seeks to sell a foreign currency in exchange for its home currency, purchase of credit protection from a counterparty who is closely associated with the reference entity of the CDS, and the purchase of credit protection on an asset type which is highly concentrated with the exposure of the counterparty selling the credit protection. We use a range of procedures to monitor and control wrong-way risk, including requiring prior approval before undertaking wrong-way risk transactions outside pre-agreed guidelines.

#### Impact of Credit Rating Downgrade

The Credit Rating Downgrade clause in an 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

	<i>(Rs '000)</i>
	As at
<b>Particulars</b>	<b>30 September 2013</b>
Gross positive fair value of contracts	228,099,079
Netting benefits	-
Netted current credit exposure,	228,099,079
Collateral held	-
Net derivatives credit exposure	228,099,079
Potential Future Exposure (PFE)	171,536,888
Measures for exposure at default, or exposure amount, under CEM.	399,635,967
Notional value of credit derivative hedges	-
Distribution of current credit exposure by types of credit exposure	
Current credit exposure - Interest Rates	108,604,978
Current credit exposure – Forex	291,030,989



# 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 2013

### 9 Basel-III common disclosure template

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	Rs. Million Amounts subject to pre-Basel III treatment
<b>Common Equity Tier 1 capital: instruments and reserves</b>		
1 Directly issued qualifying common share capital plus related stock surplus (share premium)	44,992	
2 Retained earnings ( <i>incl. Statutory Reserves, Capital Reserves and Remittable Surplus</i> )	83,085	
3 Accumulated other comprehensive income (and other reserves)		
4 Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)		
<b>Public sector capital injections grandfathered until 1 January 2018</b>		
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	128,077	
<b>Common Equity Tier 1 capital: regulatory adjustments</b>		
7 Prudential valuation adjustments		
8 Goodwill (net of related tax liability)		
9 Intangibles other than mortgage-servicing rights (net of related tax liability)		
10 Deferred tax assets	5,866	
11 Cash-flow hedge reserve		
12 Shortfall of provisions to expected losses		
13 Securitisation gain on sale		
14 Gains and losses due to changes in own credit risk on fair valued liabilities	1,684	
15 Defined-benefit pension fund net assets	58	
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		

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

For the period ended 30 September 2013

	Basel-III Amounts	Amounts subject to pre- Basel III treatment
26 National specific regulatory adjustments <sup>7</sup> (26a+26b+26c+26d) of which: Investments in the equity capital of the unconsolidated insurance 26a subsidiaries	-	
of which: Investments in the equity capital of unconsolidated non-financial 26b subsidiaries <sup>8</sup>	-	
of which: Shortfall in the equity capital of majority owned financial entities which 26c have not been consolidated with the bank <sup>9</sup>		
of which: Unamortised pension funds expenditures 26d		
27 Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions		
<b>28 Total regulatory adjustments to Common equity Tier 1</b>	<b>7,608</b>	
<b>29 Common Equity Tier 1 capital (CET1)</b>	<b>120,469</b>	
<b>Additional Tier 1 capital: instruments</b>		
30 Directly issued qualifying Additional Tier 1 instruments plus related stock surplus (31+32)		
of which: classified as equity under applicable accounting standards (Perpetual Non- 31 Cumulative Preference Shares)		
of which: classified as liabilities under applicable accounting standards (Perpetual debt 32 Instruments)		
33 Directly issued capital instruments subject to phase out from Additional Tier 1		
Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by 34 subsidiaries and held by third parties (amount allowed in Group AT1)		
of which: instruments issued by subsidiaries subject to phase out 35		
<b>36 Additional Tier 1 capital before regulatory adjustments</b>	<b>-</b>	
<b>Additional Tier 1 capital regulatory adjustments</b>		
37 Investments in own Additional Tier 1 instruments		
38 Reciprocal cross-holdings in Additional Tier 1 instruments		
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 39 above 10% threshold)		
Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions) 40		
41 National specific regulatory adjustments (41a+41b)		
41a Investments in the Additional Tier 1 capital of unconsolidated insurance subsidiaries		
Shortfall in the Additional Tier 1 capital of majority owned financial entities which 41b have not been consolidated with the bank		
Regulatory Adjustments Applied to Additional Tier 1 in respect of Amounts Subject to Pre-Basel III Treatment 42		
<b>43 Total regulatory adjustments to Additional Tier 1 capital</b>	<b>-</b>	
<b>44 Additional Tier 1 capital (AT1)</b>	<b>-</b>	
<b>44a Additional Tier 1 capital reckoned for capital adequacy<sup>11</sup></b>		
<b>45 Tier 1 capital (T1 = CET1 + AT1) (29 + 44a)</b>	<b>120,469</b>	
<b>Tier 2 capital: instruments and provisions</b>		
46 Directly issued qualifying Tier 2 instruments plus related stock surplus		
47 Directly issued capital instruments subject to phase out from Tier 2		
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) 48		

# 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 2013

	Basel-III Amounts	Amounts subject to pre- Basel III treatment
49 of which: instruments issued by subsidiaries subject to phase out		
50 Provisions ( <i>incl. Revaluation Reserve and Investment Reserve</i> )	10,807	
<b>51 Tier 2 capital before regulatory adjustments</b>	<b>10,807</b>	
<b>Tier 2 capital: regulatory adjustments</b>		
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:		
<b>57 Total regulatory adjustments to Tier 2 capital</b>	<b>-</b>	
<b>58 58 Tier 2 capital (T2)</b>	<b>10,807</b>	
<b>58a Tier 2 capital reckoned for capital adequacy</b>	<b>10,807</b>	
<b>58b Excess Additional Tier 1 capital reckoned as Tier 2 capital</b>	<b>-</b>	
<b>58c Total Tier 2 capital admissible for capital adequacy (58a + 58b)</b>	<b>10,807</b>	
<b>59 Total capital (TC = T1 + T2) (45 + 58c)</b>	<b>131,276</b>	
Risk Weighted Assets in respect of Amounts Subject to Pre-Basel III Treatment		
of which:		
of which:		
<b>60 Total risk weighted assets (60a + 60b + 60c)</b>	<b>826,027</b>	
60a of which: total credit risk weighted assets	616,684	
60b of which: total market risk weighted assets	115,987	
60c of which: total operational risk weighted assets	93,356	
<b>Capital ratios</b>		
61 Common Equity Tier 1 (as a percentage of risk weighted assets)	14.58%	
62 Tier 1 (as a percentage of risk weighted assets)	14.58%	
63 Total capital (as a percentage of risk weighted assets)	15.89%	
64 Institution specific buffer requirement (minimum CET1 requirement plus capital conservation and countercyclical buffer requirements, expressed as a percentage of risk weighted assets)		
65 of which: capital conservation buffer requirement		
66 of which: bank specific countercyclical buffer requirement		
67 of which: G-SIB buffer requirement		
68 Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)		

# 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 2013

### **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**

Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)

76

77 Cap on inclusion of provisions in Tier 2 under standardised approach

Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)

78

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

Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)

81

82 Current cap on AT1 instruments subject to phase out arrangements

Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)

83

84 Current cap on T2 instruments subject to phase out arrangements

Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)

85