

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 year ended 31 March 2018

1 Background and Scope of Application

a. Background

The information contained in the document is for the India Branches of The Hongkong and Shanghai Banking Corporation Limited ('the Bank'), which is incorporated and registered in Hong Kong Special Administrative Region ('SAR'). The Bank's ultimate holding company is HSBC Holdings plc, which is incorporated in the United Kingdom. References to 'the Group' within this document mean HSBC Holdings plc together with its subsidiaries.

b. Scope of Application

The capital adequacy framework applies to 'the Bank' as per Reserve Bank of India ('RBI') Basel III guidelines. The Bank has a subsidiary, HSBC Agency (India) Private Limited ('HAPL'), which is consolidated in line with Accounting Standard ('AS') – 21 (consolidated financial statements). Full capital deduction is taken in stand-alone financials for investment in HAPL. 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. The Bank does not have any other Group company where a pro-rata consolidation is done or any deduction is taken. The disclosure and analysis provided herein are in respect of the Bank, except where required and specifically elaborated, to include other Group entities operating in India.

(i) *Accounting and prudential treatment/ consolidation framework*

a. *Subsidiaries not included in the consolidation*

The aggregate amount of capital held by the Bank in HAPL of Rs. 500 ('000) is not included in the consolidation and is deducted from capital.

b. *List of Group entities in India considered for consolidation under regulatory scope of consolidation:*

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 dated 12 December 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 25 February 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 Non-Banking Finance Company ('NBFC'), 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 (HIFSL)(Note1)	Non-banking Finance company	1,462,847	4,385,224

* As stated in the accounting balance sheet of the legal entity as at 31 March 2017

Note 1. HIFSL 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 as it has no shareholding in this entity. However, HIFSL has been considered under regulatory scope of consolidation for the quantitative disclosures including that of capital adequacy computation under Basel III guidelines. Accordingly, (HIFSL) 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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1 Background and Scope of Application (Continued)

b. Scope of Application (Continued)

(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 for 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	1,893,873
HSBC Electronic Data Processing India Private Limited	Back office / data processing / call centre activities	3,554,678	26,949,000
HSBC Global Shared Services (India) Private Limited	Non-operating company	25,000	48,409
HSBC InvestDirect (India) Limited	Holding company for HSBC InvestDirect Group	712,713	4,991,780
HSBC InvestDirect Employees Welfare Trust	Non-operating company	15	13,323
HSBC InvestDirect Sales & Marketing (India) Limited	Non-operating company	1,000	36,599
HSBC InvestDirect Securities (India) Private Limited	Retail securities broking and related activities (Discontinued)	Equity - 875,112 0.001% Compulsory Convertible Preference shares - 870,000	167,898
HSBC Professional Services (India) Private Limited	Providing internal audit services to Group companies	4,838	219,233
HSBC Securities and Capital Markets (India) Private Limited	Stock broking and corporate finance & advisory	Equity - 4,701,139 Preference -250,000	6,199,900
HSBC Software Development (India) Private Limited	Software design, development and maintenance	327,264	33,060,244
Canara HSBC Oriental Bank of Commerce Life Insurance Company Limited	Life insurance	9,500,000	116,550,708

* As stated in the accounting balance sheet of the legal entity as at 31 March 2017

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.

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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 Executive Committee ('EXCO'), Risk Management Meeting and Asset-Liability Committee ('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. Further, the bank has put in place stringent risk appetite measures as per revised RBI guidelines on Prompt Corrective Action. 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 31 March 2018, the Bank is required to maintain minimum capital requirement including capital buffers as per the table below:

Regulatory Minimum in % as per RBI guidelines	As at 31 March 2018
Common Equity Tier I (CET1)(i)	5.50%
Capital Conservation Buffer (CCB) (ii) – (Refer note I)	1.87%
Counter-cyclical Buffer (CCCB) (iii) –(Refer note II)	-
Domestically Systemically Important Bank (D-SIB) (iv) (Refer note III)	1.49%
Minimum Common Equity Tier I (i+ii+iii+iv)	8.86%
Minimum Tier I Capital	10.36%
Total Minimum Capital Adequacy Ratio	12.36%

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

For the year ended 31 March 2018

2 Capital Adequacy & Structure (*Continued*)

a. Capital Adequacy (*Continued*)

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 31 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, 2017-18 issued on 6 April 2017, 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. There are no further updates till date from RBI.
- 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), 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 2019. Accordingly 1.49% had been added to minimum requirement towards D-SIB.

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

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2 Capital Adequacy & Structure (Continued)

b. Capital Structure

(i) Composition of Tier I capital for the bank

	As at 31 Mar 2018	As at 31 March 2017
		(Rs '000)
Capital	44,991,660	44,991,660
Eligible Reserves (Note 1)	142,832,462	136,978,630
Less: Deductions from Tier I Capital		
- Charge for Credit enhancement on Securitisation deal	(91,007)	(367,615)
- Intangible Assets Deferred Tax Asset ('DTA') (Note 2)	-	-
- Investment in subsidiaries in India	(35)	(75)
- Debit Value Adjustments (DVA)	(90,972)	(308,950)
- Defined Benefit Pension Fund Asset	-	(58,590)
Tier I Capital	187,733,115	181,602,675
Of Which Common Equity Tier I Capital	187,733,115	181,602,675
Additional Tier I Capital	-	-
Total Tier I Capital	187,733,115	181,602,675

Notes:

1 As per RBI guidelines as on 1 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). Accordingly DTA of Rs.5,026,169 ('000) (previous year: Rs. 6,221,236 ('000s)) is not deducted.

(ii) Tier 2 capital for the bank

	As at 31 Mar 2018	As at 31 March 2017
		(Rs. '000)
General Loss Provisions	4,738,207	4,740,654
Other Eligible Reserves	2,251,944	2,550,726
Total Tier II Capital (Note 1)	6,990,151	7,291,380

Note 1: There is no debt capital instrument and subordinated debt outstanding as at 31 March 2018 (previous year : Nil) included in Tier II Capital.

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

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2 Capital Adequacy & Structure (Continued)

b. Capital Structure (Continued)

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

	As at 31 March 2018	As at 31 March 2017
		(Rs '000)
I. Capital required for Credit Risk	95,410,876	85,713,970
- For portfolios subject to Standardised approach	95,410,876	85,713,970
II. Capital required for Market Risk (Standard Duration Approach)	20,007,563	16,964,723
- Interest rate risk	16,433,514	14,050,319
- Foreign exchange risk	1,112,400	1,029,873
- Equity risk	336,166	247,991
- Securitisation exposure	2,125,483	1,636,540
III. Capital required for Operational Risk (Basic Indicator Approach)	14,814,626	12,529,353
Total capital requirement (I + II + III)	130,233,065	115,208,046
Total capital funds of the Bank	194,723,266	188,894,055
Total risk weighted assets	1,053,665,571	1,006,795,865
Total capital ratio	18.48%	18.76%
Common Equity Tier I Capital Ratio	17.82%	18.04%
Tier I capital ratio	17.82%	18.04%

(iv) Capital adequacy ratio for consolidated entity (the Bank and HIFSL)

	As at 31 March 2018	As at 31 March 2017
Consolidated Total Capital Ratio	18.77%	19.05%
Consolidated Tier I Capital Ratio	18.11%	18.33%

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

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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 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) and 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. All large value proposals will be tabled and approved by the Credit Committee (CC). 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*)

For the year ended 31 March 2018

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.
- Starting 1 Jan 2017, First Line Of Defence (FLOD) activities of Underwriting and Collections team have been merged into a new unit called Credit Control Services (CCS) which at an entity level reports into the RBWM Chief Operating Office and functionally into the Regional CCS structure. FLOD underwriting decisions cases within the approved policy parameters whereas exceptions / deviation proposals are approved by the RBWM Risk Second Line of Defense (SLOD) underwriting team.
- 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 limit of authorities for credit limits to Head WMR and WMR executives including LMU will be delegated by CRO post concurrence by EXCO. For Retail, the ASP Head of RBWM Risk delegates lending authority to the India RBWM Risk Head who, in turn, delegates the lending authority to underwriters in RBWM Risk and CCS. 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

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}	As at 31 March 2018 Total
Overseas	-	-	-
Domestic	804,597,753	445,507,260	1,250,105,013
Total	804,597,753	445,507,260	1,250,105,013

(Rs '000)

	Fund based ^{Note 1}	Non fund based ^{Note 2}	As at 31 March 2017 Total
Overseas	-	-	-
Domestic	712,688,346	389,479,252	1,102,167,598
Total	712,688,346	389,479,252	1,102,167,598

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 year ended 31 March 2018

3 Credit risk (Continued)

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

(ii) Industry type distribution of exposures as at 31 March 2018

	(Rs '000)		
Industry	Funded	Non Funded	Total
Mining and Quarrying	-	29,794	29,794
Food Processing	11,201,450	1,726,106	12,927,556
Beverages (excluding Tea & Coffee) and Tobacco	6,758,661	2,468,667	9,227,328
Textiles	6,400,216	2,341,659	8,741,875
Leather and Leather products	23,577	32	23,609
Wood and Wood Products	925,000	13,065	938,065
Paper and Paper Products	6,579,068	3,307,685	9,886,753
Petroleum (non-infra), Coal Products (non-mining) and Nuclear Fuels	28,070	2,270,517	2,298,587
Chemicals and Chemical Products (Dyes, Paints, etc.)	54,283,797	34,722,247	89,006,044
Rubber, Plastic and their Products	8,775,513	3,248,206	12,023,719
Glass & Glassware	288,806	791,028	1,079,834
Cement and Cement Products	1,409,744	845,168	2,254,912
Basic Metal and Metal Products	12,222,305	4,724,778	16,947,083
All Engineering	47,458,187	52,262,867	99,721,054
Vehicles, Vehicle Parts and Transport Equipments	20,382,224	15,029,002	35,411,226
Gems and Jewellery	42,145	2,656	44,801
Construction	883,452	1,019,976	1,903,428
Infrastructure	26,364,965	58,313,307	84,678,272
NBFCs and trading	87,182,367	19,031,136	106,213,503
Banking and finance	173,283,686	82,982,937	256,266,623
Computer Software	956,490	10,016,378	10,972,868
Professional Services	17,347,536	84,764,454	102,111,990
Commercial Real Estate	81,102,217	1,108,527	82,210,744
Other Industries	229,107,271	51,887,096	280,994,367
Retail	11,591,006	12,599,972	24,190,978
Total	804,597,753	445,507,260	1,250,105,013

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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 2017

(Rs '000)

Industry	Fund based	Non fund based	Total
Mining and Quarrying	25,944	60,794	86,738
Food Processing	7,545,710	2,676,142	10,221,852
Beverages and Tobacco	12,957,625	2,484,445	15,442,070
Textiles	4,380,496	1,969,225	6,349,721
Leather and Leather products	81	32	113
Wood and Wood Products	-	565	565
Paper and Paper Products	3,357,228	253,102	3,610,330
Petroleum	2,841	12,306,680	12,309,521
Chemicals and Chemical Products	53,084,716	28,302,365	81,387,081
Rubber, Plastic and their Products	6,095,565	2,316,188	8,411,753
Glass & Glassware	1,154,990	261,659	1,416,649
Cement and Cement Products	658,686	436,909	1,095,595
Basic Metal and Metal Products	13,856,242	6,640,099	20,496,341
All Engineering	33,622,683	34,695,034	68,317,717
Vehicles and Transport Equipments	17,931,230	15,152,775	33,084,005
Gems and Jewellery	129,389	1,167	130,556
Construction	408,168	924,062	1,332,230
Infrastructure	25,016,799	56,646,113	81,662,912
NBFCs and trading	54,404,373	21,759,810	76,164,183
Banking and finance	154,014,190	72,354,814	226,369,004
Computer Software	1,205,976	9,599,388	10,805,364
Professional Services	16,521,722	73,316,703	89,838,425
Other Industries	224,907,515	37,888,651	262,796,166
Retail	81,406,177	9,432,530	90,838,707
Total	712,688,346	389,479,252	1,102,167,598

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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

	As at 31 March 2018	As at 31 March 2017
		(Rs'000)
1 day	189,809,898	270,448,932
2 to 7 days	130,902,398	58,560,210
8 to 14 days	84,069,239	22,707,296
15 to 28 days	151,878,927	68,843,612
29 days & up to 3 months	127,039,209	119,745,859
Over 3 months and up to 6 months	87,888,779	53,267,942
Over 6 months and up to 1 year	94,665,263	82,260,552
Over 1 year and up to 3 years	167,368,038	243,611,801
Over 3 years and up to 5 years	133,530,064	201,520,182
Over 5 years	277,096,065	183,785,758
Total	1,444,247,881	1,304,752,144

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

	As at 31 March 2018	As at 31 March 2017
		(Rs'000)
Substandard	1,472,645	4,091,934
Doubtful 1	3,414,135	849,102
Doubtful 2	1,072,635	719,068
Doubtful 3	2,343,406	2,358,408
Loss	939,842	951,239
Total	9,242,663	8,969,751

(v) Net NPAs

The net NPAs are Rs. 1,440 million (previous year ended March 2017, Rs. 2,040 million). Please see table (vii) below.

(vi) NPA ratios

	As at 31 March 2018	As at 31 March 2017
Gross NPAs to gross advances	1.77%	1.91%
Net NPAs to net advances	0.28%	0.44%

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(vii) Movement of NPAs

(Rs'000)

	Gross NPA's	Provision	As at 31 March 2018 Net NPA
Opening balance as at 1 April 2017	8,969,751	6,929,968	2,039,783
Additions during the period	3,385,256	1,408,264	1,976,992
Reductions during the period	(3,112,344)	(535,670)	(2,576,674)
Closing balance as at 31 March 18	<u>9,242,663</u>	<u>7,802,562</u>	<u>1,440,101</u>

(Rs'000)

	Gross NPA's	Provision	As at 31 March 2017 Net NPA
Opening balance as at 1 April 2016	8,357,860	6,244,737	2,113,123
Additions during the period	5,608,391	3,137,287	2,471,104
Reductions during the period	(4,996,500)	(2,452,056)	(2,544,444)
Closing balance as at 31 March 2017	<u>8,969,751</u>	<u>6,929,968</u>	<u>2,039,783</u>

(viii) General Provisions

General provisions comprises of provision towards standard assets and Unhedged Foreign Currency Exposure (UFCE) in accordance with RBI Master Circular RBI/2013-14/448 DBOD.No.BP.BC. 85 /21.06.200/2013-14 dated 15 January 2014.

(ix) Non-performing investments

Non-performing investments as at 31 March 2018 are Rs. 2 (previous year 31 March 2017 Rs. 2). This represents 2 preference share investments which have each been written down to Rs.1.

(x) Movement of provisions for depreciation on investments

(Rs'000)

	As at 31 March 2018	As at 31 March 2017
Opening balance	359,977	389
Provisions during the year	702,107	359,588
Write offs during the year	-	-
Write back of excess provisions during the year	-	-
Closing balance	<u>1,062,084</u>	<u>359,977</u>

3 Credit risk (Continued)

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

For the year ended 31 March 2018

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

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

As at 31 March 2018

	(Rs '000)				
	NPA	Past Due Loans	Provision	Specific Provision during the year	Write off during the year
1. Agriculture	-	13,101	-	-	-
1.1 Direct Agriculture	-	-	-	-	-
1.2 Indirect Agriculture	-	13,101	-	-	-
2. Advances to Industries sector	4,040,683	4,428,382	4,048,697	736,156	0
of which:					
2.1 Chemicals and Chemical Products	141,606	3,340,109	-	-	-
2.2 All Engineering	104,916	408,211	104,916	-	-
2.3 Infrastructure	433,683	31,087	436,755	-	-
3. Services	2,364,369	155,969	2,319,104	141,315	982
of which:					
3.1 Trade	1,898,170	-	1,852,898	134,436	-
3.2 Commercial Real Estate	53,978	-	54,148	-	-
3.3 NBFC	120,254	-	-	-	-
4. Retail	2,837,611	2,241,323	1,434,761	530,794	658,634
Total	9,242,663	6,838,775	7,802,562	1,408,264	659,616

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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 and Specific Provision and Write off during the year (continued)

As at 31 March 2017

	(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	3,977,569	1,767,688	3,337,179	2,519,205	837,479
of which:					
2.1 Glass & Glassware	-	-	-	266,592	837,479
2.2 Infrastructure	433,947	45,792	436,755	-	-
2.3 Paper and Paper products	2,830,647	2,443	2,187,943	2,218,446	-
3. Services	2,236,425	104,843	2,232,399	213,038	-
of which:					
3.1 Trade	1,764,360	12,278	1,765,690	26,696	-
3.2 Computer Software	221,503	-	221,501	4,338	-
3.3 NBFC	120,254	-	120,223	4,503	-
4. Retail	2,755,757	2,261,747	1,360,390	405,044	557,428
Total	8,969,751	4,134,278	6,929,968	3,137,287	1,394,907

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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)

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

(Rs '000)

	As at 31 March 2018	As at 31 March 2017
Write offs	578,034	533,741
Recoveries	262,249	191,614
	840,283	725,355

(xiii) Ageing of past due loans

(Rs '000)

	As at 31 March 2018	As at 31 March 2017
Overdue less than 30 days	6,063,566	3,413,823
Overdue for 30 to 60 days	581,539	488,014
Overdue for 60 to 90 days	193,670	232,441
	6,838,775	4,134,278

(xiv) Amount of NPAs and past due loans by significant geographic areas

As at 31 March 2018

(Rs '000)

	NPA	Past Due Loan
Overseas	-	-
Domestic	9,242,663	6,838,775
Total	9,242,663	6,838,775

As at 31 March 2017

(Rs '000)

	NPA	Past Due Loans
Overseas	-	-
Domestic	8,969,751	4,134,278
Total	8,969,751	4,134,278

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

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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)
- g) Informerics

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

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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. These guidelines are kept on hold by RBI till March 19 quarter. 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 / foreign central 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	0%	20%	50%	100%	150%	100%

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

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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%

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.

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 INR 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.

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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*)

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-empowered valuer and the provisions applicable are calculated accordingly.

Main Types of Collateral taken by the Bank

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

The main types of recognised collateral taken by the Bank appear in the list of eligible financial collaterals advised in RBI Master circular on Basel III Capital Regulations issued in July 2015, and include (but are not limited to) cash on deposits, equities listed in a main index and/or a recognised exchange, units or shares in collective investment schemes and various recognised debt securities. Further the main types of recognised collateral taken by the Bank for mortgages include plots of land, ready possession and under construction properties.

Main Types of Guarantor Counterparty and their Creditworthiness

As stated in Section 7.5.6 of the RBI's Master circular on Basel-III guidelines, certain guarantees are recognised for credit risk mitigation purposes. Where guarantees are direct, explicit, irrevocable, unconditional and meeting all operating guidelines prescribed by RBI, the Bank may take account of such credit protection in calculating capital requirements. The main types of guarantees are from Sovereigns, sovereign entities (including Bank for International Settlements (BIS), International Monetary Fund (IMF), European Central Bank and European Community as well as those Multilateral Development Banks (MDBs) referred to in paragraph 5.5 of the RBI's Master circular on Basel-III guidelines, Export Credit Guarantee Corporation of India Ltd (ECGC) and Credit Guarantee Fund Trust for Micro and Small Enterprises (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.

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5. Policy for Collateral Valuation and Management (Continued)

The total exposure (including non-funded post Credit Conversion Factors) that is covered by eligible financial collateral, after the application of haircuts is Rs. 42,722 million as at 31 March 2018 (previous year Rs. 47,201 million).

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

(Rs'000)

	As at 31 March 2018	As at 31 March 2017
Below 100% risk weight	725,281,767	569,765,029
100% risk weight	366,444,739	410,885,392
Above 100% risk weight	115,656,286	74,316,029
Deductions*	(91,007)	(367,615)
Total	1,207,291,786	1,054,598,835

*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 2.75% of net CET1 capital. Accordingly, there is no deduction as on 31 March 18.

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.

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6. Securitisation disclosure for standardised approach (Continued)

Valuation of securitisation positions

The investments of the Bank in PTCs have been marked to market on the basis of the Base Yield Curve and the applicable spreads as per the spread matrix relative to the Weighted Average Maturity of the paper as notified by Fixed Income Money Market and Derivative Association of India (FIMMDA).

Securitisation accounting treatment

The accounting treatment applied is as below:

- Originator: Securitised assets are derecognised upon sale if the true sale criteria are fully met and the bank surrenders control over the contractual rights that comprise the financial asset. In respect of credit enhancements provided or recourse obligations accepted by the Bank, appropriate provision/ disclosures is made in accordance with AS 29 – ‘Provisions, contingent liability and contingent assets’. Gains on securitisation, being the excess of consideration received over the book value of the loans and provisions against expected costs including servicing costs and the expected delinquencies are amortised over the life of the securities issued by the SPV. Losses are recognised immediately. Sale and transfer that do not meet the above criteria are accounted for as secured borrowings.
- Servicer: In case the Bank acts as servicer of the securitisation deal the fees charged for servicing the loans would be recognised on an accrual basis.
- Investor: The investment in PTCs are accounted for as Available for Sale (AFS) investments and valued as per the note above. The loan assignment deals are classified as advances.

Securitisation regulatory treatment

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

ECAI's used

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

- a) Credit Analysis and Research Limited
- b) CRISIL Limited
- c) India Ratings and Research Private Limited
- d) ICRA Limited
- e) Brickwork Ratings India Pvt Limited
- f) SMERA Ratings Limited (SMERA)
- g) Informerics

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

Details of Securitisation trades of the Bank

(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 (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. 81,340 million as at 31 March 2018 (previous year Rs. 63,563 million). These attract a risk weight of 20% since they are AAA rated instruments.

7. Market risk in trading book

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

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.

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.

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Structure and Organisation of management of risk

The management of market risk is undertaken in Markets using risk limits approved by an independent Risk function. Limits are set for portfolios, products and risk types. The level of market risk limits set for each operation depends upon the market liquidity, financial and capital resources of the business, the business plan, the experience and track record of the management, dealers and market environment, as well as the Group's risk appetite. Market risk limits are reviewed annually.

Global Risk, an independent unit within the Group, is responsible for our market risk management policies and measurement techniques. At local level, the Bank has a Market Risk Management function, independent of Markets, which is responsible for measuring market risk exposures in accordance with the Group policies, and monitoring and reporting these exposures against the prescribed limits on a daily basis.

Scope and nature of risk measurement, reporting and monitoring

The Bank employs a range of tools to monitor and limit market risk exposures. These include position limits, sensitivity analysis (PVBP limits), stop loss limit, VaR, Stressed VaR and stress testing.

While VaR provides a measure of the market risk in the Bank, sensitivity analysis (e.g Present Value of 1 basis point (PV01)) and VaR are more commonly utilised for the management of the business units. Stress testing and stressed VaR complement these measures with estimates of potential losses arising from market turmoil.

The Bank's VaR and stressed VaR models are predominantly based on historical simulation. VaR measures are calculated to a 99% confidence level and use a one-day holding period, whereas stressed VaR uses a 10-day holding period. The accuracy of VaR models is routinely validated by back-testing the actual daily profit and loss results, adjusted to remove non-modelled items such as fees and commissions, against the corresponding VaR numbers.

Market Risk Limits are proposed by the Head of Treasury and are approved by EXCO. Upon approval, 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	As at 31 March 2018	As at 31 March 2017
Interest rate risk	16,433,514	14,050,319
Foreign exchange risk	1,112,400	1,029,873
Equity risk	336,166	247,991
Securitisation exposure	2,125,483	1,636,540
Capital requirements for market risk	20,007,563	16,964,723

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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 Risk Management Meeting (RMM) is the apex body at an entity level that is responsible for oversight and management of all risks in INM. Additionally, for Financial Crime risk (FCR) management and oversight, INM has a Financial Crime Risk Management Committee (FCRMC) at an entity level. Both these governance meetings are the apex risk management bodies of the bank and report to the EXCO. INM Operational Risk Working Group (ORWG) is responsible for providing guidance, advice and challenge in embedding of the ORMF in INM and reports into FCRMC and RMM.

At individual business level, there are Business Control Committees (BCC)/ Risk Management forum that are responsible for oversight and management of all risks. Similar bodies specializing in FCR risks also exists at business level. These bodies escalate/ report to RMM and FCRMC respectively.

Three Lines of Defence (3LOD) Overview

The 3LOD model is an organisational structure that outlines the division of roles and responsibilities, defined by the activities performed. It is applicable to all individuals and to all risk types. There should be a clear segregation between risk ownership (First LOD), risk oversight (Second LOD) and independent assurance (Third LOD) to help support the Bank in the effective identification, assessment, monitoring, management, and reporting of risks.

First Line of Defence

The First LOD has ultimate ownership for risk and controls. It comprises of three key roles: 'Risk Owners', 'Control Owners' and 'Business Risk and Control Managers' ("BRCM"). Individuals can be both Risk Owners and Control Owners, depending on the activity(ies) they are undertaking.

Risk Owners sit in the Global Businesses and are accountable for agreeing risk appetite and identifying, assessing, and managing risks for their business in line with the risk appetite set by the Board.

Control Owners may sit within a Global Business, Global Function or a third party. They are responsible for assessing and managing the processes, activities, or systems to ensure that they are operating effectively. They work with the Risk Owners to understand and manage the risks.

The BRCMs may sit within a Global Business, Global Function or geographic CEO or Chief

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Operating Officer structure. They are responsible for providing operational risk advice and control testing for their organisational area. They work closely with Risk Owners and Control Owners to ensure operational risk management activities are effectively executed.

8 Operational risk (*Continued*)

Second Line of Defence

The Second LOD review and challenge the activities of the First LOD to ensure that they have met the minimum requirements for risk management. The Second LOD consists of 'Risk Stewards' who are independent of the commercial risk-taking activities undertaken by the First LOD.

Risk Stewards sit within the Global Functions. They perform the specialist role of setting policies and the oversight of the First LOD activities for their given risk type. There are regional, country and global business Risk Stewards throughout the organisation who execute the responsibilities cascaded to them by the global Risk Steward.

Global Functions with both First and Second LOD responsibilities must segregate these responsibilities 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.

The Operational Risk function provides advice and guidance on the use of the Operational Risk Management Framework. Operational Risk also challenges the effectiveness of the Operational Risk Management Framework in use by the First LOD and Risk Stewards.

Third Line of Defence

The Third LOD is Global Internal Audit. They provide independent assurance to management and the non-executive Risk and Audit Committees that our risk management, governance and internal control processes are designed and 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 dynamically on occurrence of 'Trigger Event'.

A regular report on operational losses is made to the Bank's senior management through the RMM.

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

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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)

	As at 31 March 2018	As at 31 March 2017
Base		
Total EVE	4,076	3,951
Total Regulatory Capital	2,898	2,825
+200 bps		
EVE	3,878	3,695
EVE Sensitivity	-198	-256
EVE Sensitivity / Total Regulatory Capital	6.84%	8.05%
-200 bps		
EVE	4,296	4,190
EVE Sensitivity	193	239
EVE Sensitivity / Total Regulatory Capital	6.66%	8.46%

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

(ii) Impact on Earnings (NII)

As at 31 March 2018

(USD'000s)

	Commercial Banking	Others	Total
Projected NII for next 12 months	642,060	78,852	720,913
Parallel Movement in yield curve			
+100 bps	-8,505	9,364	859
-100 bps	-7,768	13,793	6,024
Ramp Movement in yield curve			
+100 bps	3,513	2,458	5,971
-100 bps	-9,691	9,876	184

As at 31 March 2017

(USD'000s)

	Commercial Banking	Others	Total
Projected NII for next 12 months	497,053	229,101	726,154
Parallel Movement in yield curve			
+100 bps	34,356	-33,629	727
-100 bps	-34,158	33,933	-225
Ramp Movement in yield curve			
+100 bps	19,813	-23,176	-3,363
-100 bps	-31,861	23,375	-8,486

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10 Counterparty Credit Risk

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

Counterparty credit risk arising from over-the-counter (OTC) derivatives is calculated in both the trading and non-trading books, and is the risk that a counterparty to a transaction may default before completing the satisfactory settlement of the transaction on any foreign exchange, interest rates, or equity contracts. An economic loss occurs if the transaction or portfolio of transactions with the counterparty has a positive economic value at the time of default.

As per the RBI Master circular on Basel-III Capital Regulations dated 01 July 2015, banks are expected to use the standardised method for computation of counterparty credit exposure using the Current Exposure Method (CEM) for market related off balance sheet exposures. Under this method the exposure on all the derivative contracts is calculated as the sum of current credit exposure/replacement cost i.e. the sum of the positive mark-to-market (MTM) of the contracts (negative MTMs are to be ignored) and the potential future exposure (PFE). PFE is determined based on a set percentage multiplied by the notional of the deal. The percentage by which the notional is multiplied is dependent upon the type of the product and the tenor as prescribed in RBI guidelines. PFE so obtained is added to the gross positive replacement cost to arrive at the final exposure at default.

Bilateral netting of counterparty credit exposures, in derivative contracts, i.e bilateral netting of MTM values arising on account of such derivative contracts is not permitted. Accordingly, only gross positive MTM value of such contracts is considered for the purposes of exposure computation for capital adequacy.

The Group assesses total economic capital requirements centrally for the risk by utilising the embedded operational infrastructure used for the Pillar 1 capital calculation.

Limits for counterparty credit risk exposures are assigned within the overall credit process for distinct customer limit approval.

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.

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10 Counterparty Credit Risk (Continued)

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.

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11. Leverage Ratio

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

Leverage Common disclosure:

(Rs in Million)

Sr No	Item	As at 31 March 2018	As at 31 March 2017
	On-balance sheet exposures		
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	1,314,887	1,195,584
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(91)	(368)
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	1,314,796	1,195,217
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	39,303	53,365
5	Add-on amounts for PFE associated with all derivatives transactions	158,941	119,251
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)	198,243	172,616
	Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	77,128	55,803
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)	77,128	55,803
	Other off-balance sheet exposures		
17	Off-balance sheet exposure at gross notional amount	1,189,354	1,138,436
18	Adjustments for conversion to credit equivalent amounts	(828,344)	(822,780)
19	Off-balance sheet items (sum of lines 17 and 18)	361,010	315,655
	Capital and total exposures		
20	Tier 1 capital	187,733	181,603
21	Total exposures (sum of lines 3, 11, 16 and 19)	1,951,178	1,739,291
	Leverage ratio		
22	Basel III leverage ratio (per cent)	9.62%	10.44%

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.

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Comparison of accounting assets vs leverage ratio exposure measure:

(Rs in Million)

Sr No	Item	As at 31 March 2018	As at 31 March 2017
1	Total consolidated assets as per published financial statements	1,444,248	1,304,752
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	146,011	119,251
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)	361,010	315,655
7	Other adjustments	(91)	(368)
	Total Exposure (point 21 in Table 1)	1,951,178	1,739,291

Note: The consolidated leverage ratio is 9.80% as on 31 March 2018.

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12 Composition of Capital

(Rs in Million)

	Basel III common disclosure template to be used during the transition of regulatory adjustments (i.e. from April 1, 2013 to March 31, 2018)	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 (<i>incl. Statutory Reserves, Capital Reserves and Remittable Surplus retained for Capital to Risk-weighted Assets Ratio (CRAR)</i>)	140,574	143,120	B1+B2+B3+B4+B5+B6+B7
3	Accumulated other comprehensive income (and other reserves)	2,258	2,258	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	187,824	191,833	
	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)		1	
10	Deferred tax assets	-	10	
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	91	91	
15	Defined-benefit pension fund net assets	-	-	
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-	-	
17	Reciprocal cross-holdings in common equity	-	-	

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18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	-
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-	-
20	Mortgage servicing rights (amount above 10% threshold)	-	-
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	-
22	Amount exceeding the 15% threshold	-	-
23	of which: significant investments in the common stock of financial entities	-	-
24	of which: mortgage servicing rights	-	-
25	of which: deferred tax assets arising from temporary differences	-	-
26	National specific regulatory adjustments ⁷ (26a+26b+26c+26d)	-	-
26a	of which: Investments in the equity capital of the unconsolidated insurance subsidiaries	-	-
26b	of which: Investments in the equity capital of unconsolidated non-financial subsidiaries ⁸	0	0
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	91	102
29	Common Equity Tier 1 capital (CET1)	187,733	191,731
	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)	-	-

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	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	-	-	
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 adequacy¹¹	-	-	
45	Tier 1 capital (T1 = CET1 + AT1)		191,731	

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	(29 + 44a)	187,733		
	Tier 2 capital: instruments and provisions	-	-	
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	-	-	
47	Directly issued capital instruments subject to phase out from Tier 2	-	-	
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in Group Tier 2)	-	-	
49	of which: instruments issued by subsidiaries subject to phase out	-	-	
50	Provisions (<i>incl. eligible reserves</i>)	6,990	7,008	D1+D2
51	Tier 2 capital before regulatory adjustments	6,990	7,008	
	Tier 2 capital: regulatory adjustments	-	-	
52	Investments in own Tier 2 instruments	-	-	
53	Reciprocal cross-holdings in Tier 2 instruments	-	-	
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	-	-	
55	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	-	
56	National specific regulatory adjustments (56a+56b)	-	-	
56a	of which: Investments in the Tier 2 capital of unconsolidated subsidiaries	-	-	
56b	of which: Shortfall in the Tier 2 capital of majority owned financial entities which have not been consolidated with the bank	-	-	
	Regulatory Adjustments Applied To Tier 2 in respect of Amounts Subject to Pre-Basel III Treatment	-	-	
	of which:	-	-	
	of which:	-	-	
57	Total regulatory adjustments to Tier 2 capital	-	-	
58	Tier 2 capital (T2)	6,990	7,008	
58a	Tier 2 capital reckoned for capital adequacy	6,990	7,008	

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58b	Excess Additional Tier 1 capital reckoned as Tier 2 capital			-
58c	Total Tier 2 capital admissible for capital adequacy (58a + 58b)	6,990	7,008	
59	Total capital (TC = T1 + T2) (45 + 58c)	194,723	198,739	
	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)	1,053,666	1,058,885	
60a	of which: total credit risk weighted assets	771,933	777,152	
60b	of which: total market risk weighted assets	161,873	161,873	
60c	of which: total operational risk weighted assets	119,860	119,859	
	Capital ratios			-
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	17.82%	18.11%	
62	Tier 1 (as a percentage of risk weighted assets)	17.82%	18.11%	
63	Total capital (as a percentage of risk weighted assets)	18.48%	18.77%	
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation and countercyclical buffer requirements, expressed as a percentage of risk weighted assets)	8.86%	8.86%	
65	of which: capital conservation buffer requirement	1.88%	1.88%	
66	of which: bank specific countercyclical buffer requirement	-	-	
67	of which: G-SIB buffer requirement	1.49%	1.49%	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	12.32%	12.61%	
	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	-	-	

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73	Significant investments in the common stock of financial entities	-	-	
74	Mortgage servicing rights (net of related tax liability)	-	-	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	-	-	
	Applicable caps on the inclusion of provisions in Tier 2	-	-	
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	-	-	
77	Cap on inclusion of provisions in Tier 2 under standardised approach	-	-	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-	-	
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	-	-	
	Capital instruments subject to phase-out arrangements (only applicable between March 31, 2017 and March 31, 2022)	-	-	
80	Current cap on CET1 instruments subject to phase out arrangements	-	-	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	-	
82	Current cap on AT1 instruments subject to phase out arrangements	-	-	
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	-	
84	Current cap on T2 instruments subject to phase out arrangements	-	-	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	-	

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	171,232	173,778	
	a. Statutory Reserve	53,836	53,836	B1
	b. Capital Reserve - Surplus on sale of Immovable assets	5,675	5,675	B2
	c. Capital Reserves	13,262	15,809	B3
	d. Remittable surplus retained in India for CRAR purposes	65,891	65,891	B4
	e. Revaluation Reserve	5,017	5,017	C
	f. Investment Reserve	2,252	2,252	D1
	g. Specific Reserve	1,912	1,912	B5
	h. Balance in Profit & Loss Account	23,388	23,388	
	i. General Reserve		-	B6
	j. Security Premium		(1)	B7
	Minority Interest	-	-	
	Total Capital	216,224	220,233	
ii	Deposits	921,693	921,693	
	of which: Deposits from banks	30,613	30,613	
	of which: Customer deposits	891,080	891,080	
	of which: Other deposits (pl. specify)	-	-	
iii	Borrowings	208,748	208,748	
	Borrowings in India	165,384	165,384	
	of which: From RBI	121,040	121,040	
	of which: From banks	10	10	
	of which: From other institutions & agencies	44,333	44,333	

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	Borrowings outside India	43,364	43,364	
	of which: Others (pl. specify)	43,364	43,364	
	of which: Capital instruments	-	-	
iv	Other liabilities & provisions	97,583	98,671	
	of which: Provisions towards Standard Assets	4,738	4,756	D2
	Total Capital and Liabilities	1,444,248	1,449,345	
B	Assets		-	
i	Cash and balances with Reserve Bank of India	42,929	43,191	
ii	Balance with banks and money at call and short notice	204,551	204,551	
iii	Investments:	564,287	564,308	
	of which: Government securities	409,753	409,753	
	of which: Other approved securities	-	-	
	of which: Shares	136	136	
	of which: Debentures & Bonds	62,888	62,888	
	of which: Subsidiaries / Joint Ventures / Associates	0	0	
	of which: Others (Commercial Papers, Mutual Funds etc.)	91,509	91,509	
iv	Loans and advances	514,504	519,274	
	of which: Loans and advances to banks	-	-	
	of which: Loans and advances to customers	514,504	514,504	
v	Fixed assets	7,658	7,664	
vi	Other assets	110,318	110,358	
	of which: Goodwill and intangible assets	-	-	
	of which: Deferred tax assets	5,026	5,036	
vii	Goodwill on consolidation	-	-	
viii	Debit balance in Profit & Loss account	-	-	
	Total Assets	1,444,248	1,449,345	

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 year ended 31 March 2018

14 Regulatory capital Instruments

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

15 Disclosure Requirements for Remuneration

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

16. Equities - Disclosure for Banking Book Positions

Investment in equity shares as at 31 March 2018 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 Unlisted limited companies. There are no quoted market prices for these securities. Accordingly these are valued at lower of cost or break-up value basis the latest available balance sheet.

Quantitative Disclosures

1. The value of equity investments (unquoted) as at 31 March 2018 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 31 March 2018.
4. The unrealised gain or loss recognised in the balance sheet and not through the profit and loss account is nil.
5. The break-up value of unquoted equity investment as at 31 March 2018 is Rs.1,130 million. The difference between break-up value and current cost of equity investment is Rs.994 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.196 million.