

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 June 2014

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 in all subsidiaries not included in the consolidation*

The aggregate amount of capital held by the Bank in HSBC Agency (India) Private Limited of Rs. 0.2 million is not included in the consolidation and is deducted from capital.

(ii) *Bank's total interest in insurance entities*

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

(iii) *List of Group entities in India not considered for consolidation both under the accounting and regulatory scope of consolidation :*

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	542,000	786,195
HSBC Bank Oman S.A.O.G, India branch	Banking branch	1,585,136	3,410,475
HSBC Electronic Data Processing India Private Limited	Back office / data processing / call centre activities	3,554,678	20,846,270
HSBC Global Shared Services (India) Private Limited	Non-operating company	25,000	47,131
HSBC InvestDirect (India) Limited	Holding company for HSBC InvestDirect Group.	712,712	4,963,150
HSBC InvestDirect Employees' Welfare Trust	Non-operating company	15	30,225
HSBC InvestDirect Financial Services (India) Limited	Non-banking Finance company.	1,462,847	4,621,514
HSBC InvestDirect Sales & Marketing (India) Limited	Non-operating company	101,158	132,683
HSBC InvestDirect Securities (India) Limited.	Retail securities broking and related activities (Discontinued).	Equity - 875,112 0.001% Compulsory Convertible Preference shares - 870,000	258,550
HSBC Professional Services (India) Private Limited	Providing internal audit services to Group companies	4,838	139,917
HSBC Securities and Capital Markets (India) Private Limited	Stock broking and corporate finance & advisory	Equity - 4,701,139 Preference – 250,000	6,708,755

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 June 2014

HSBC Software Development (India) Private Limited	Software design, development and maintenance	327,260	19,357,830
Canara HSBC Oriental Bank of Commerce Life Insurance Company Limited	Life insurance	9,500,000	89,672,353

* As stated in the accounting balance sheet of the legal entity as at 31 March 2014

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 Adequacy & Structure

a. Capital Structure:

(i) Composition of Tier 1 capital

	(Rs '000)
	As at
	30 June 2014
Capital	44,991,660
Eligible Reserves	95,113,300
Less: Deductions from Tier I Capital	(6,423,743)
- Intangible Assets (Deferred Tax Asset)	(5,651,811)
- Investment in subsidiaries in India	(200)
- Debit Value Adjustments (DVA) (note 1)	(666,473)
- Defined Benefit Pension Fund Asset	(105,259)
Tier I Capital	133,681,217
Common Equity Tier I Capital	133,681,217
Additional Tier I Capital	-
Total Tier I Capital	133,681,217

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).

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 June 2014

2 Capital Adequacy & Structure (Continued)

(ii) Tier 2 capital

	(Rs '000)
	As at
	30 June 2014
Property revaluation reserves	3,591,373
General Loss Provisions / Other Eligible Reserves	8,952,101
Total Tier II Capital	12,543,474

(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 June 2014.

(v) Other deductions from capital

There are no other deductions from capital.

(vi) Total eligible capital

The total eligible capital is Rs.146,225 million.

b. 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 which became effective from 1 April 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

(Incorporated in Hong Kong SAR with limited liability)

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

For the period ended 30 June 2014

2 Capital Adequacy & Structure (Continued)

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

	(Rs '000)
	As at
	30 June 2014
I. Capital required for Credit Risk	69,689,450
- For portfolios subject to Standardised approach	69,689,450
II. Capital required for Market Risk (Standard Duration Approach)	12,642,913
- Interest rate risk	11,440,972
- Foreign exchange risk	720,000
- Equity risk	92,607
- Securitisation exposure	389,334
III. Capital required for Operational Risk (Basic Indicator Approach)	8,525,654
Total capital requirement (I + II + III)	90,858,017
Total capital funds of the Bank	146,224,691
Total risk weighted assets	1,009,533,527
Consolidated total capital ratio	14.48%
Consolidated Common Equity Tier I Capital Ratio	13.24%
Consolidated Tier I capital ratio	13.24%

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

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 June 2014

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.

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.

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 June 2014

3 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.

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 June 2014

3 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. 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 30 June 2014 Total
Overseas	-	-	-
Domestic	601,974,964	575,998,772	1,177,973,736
Total	601,974,964	575,998,772	1,177,973,736

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.

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 June 2014

3 Credit risk: (Continued)

(ii) Industry type distribution of exposures as at 30 June 2014

(Rs '000)

Industry	Fund based	Non Fund based	Total
Mining and Quarrying	1,014,658	84,285	1,098,944
Food Processing	6,355,394	5,153,884	11,509,278
Beverages and Tobacco	1,162,421	7,240	1,169,661
Textiles	4,687,523	5,635,693	10,323,216
Leather and Leather products	26,398	5,257	31,656
Wood and Wood Products	-	565	565
Paper and Paper Products	7,285,298	858,681	8,143,979
Petroleum	973,416	26,647,965	27,621,380
Chemicals and Chemical Products	49,754,004	44,267,446	94,021,451
Rubber, Plastic and their Products	6,541,969	2,343,912	8,885,881
Glass & Glassware	2,531,846	1,714,508	4,246,354
Cement and Cement Products	6,246,862	3,082,261	9,509,122
Basic Metal and Metal Products	10,378,137	21,459,828	31,837,965
All Engineering	19,149,444	35,405,399	54,554,843
Vehicles and Transport Equipments	15,239,232	16,510,593	31,749,825
Gems and Jewellery	278,441	1,862	280,302
Construction	34,900,386	2,678,993	37,579,379
Infrastructure	37,103,772	61,354,948	98,458,721
NBFCs and trading	43,244,054	23,756,870	67,000,924
Banking and finance	102,913,457	207,799,692	310,713,149
Computer Software	250,277	42,815,346	43,065,623
Other Industries	166,411,571	66,165,523	232,577,095
Retail	85,346,404	8,248,021	93,594,425
Total	601,974,964	575,998,772	1,177,973,736

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 June 2014

3 Credit risk: (Continued)

(iii) Residual contractual maturity breakdown of total assets

	(Rs'000)
	As at 30 June 2014
1 day	103,484,787
2 to 7 days	80,590,015
8 to 14 days	38,022,547
15 to 28 days	57,397,106
29 days & up to 3 months	144,310,927
Over 3 months and up to 6 months	156,504,059
Over 6 months and up to 1 year	177,852,038
Over 1 year and up to 3 years	162,729,840
Over 3 years and up to 5 years	128,279,540
Over 5 years	158,548,056
Total	1,207,718,915

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

	(Rs'000)
	As at 30 June 2014
Substandard	1,378,597
Doubtful 1	753,626
Doubtful 2	2,403,391
Doubtful 3	1,184,519
Loss	735,453
Total	6,455,586

(v) Net NPA

The net NPA is Rs.1,057 million. Please see table (vii) below.

(vi) NPA ratios

	As at 30 June 2014
Gross NPAs to gross advances	1.61%
Net NPAs to net advances	0.27%

(vii) Movement of NPAs

	(Rs'000)		
	As at 30 June 2014		
	Gross NPA's	Provision	Net NPA
Opening balance as at 1 April 2014	6,723,518	5,625,196	1,098,322
Additions during the period	-	-	-
Reductions during the period	(267,932)	(226,694)	(41,238)
Closing balance as at 30 June 2014	6,455,586	5,398,502	1,057,084

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 June 2014

3 Credit risk: (Continued)

(viii) *Non-performing investments*

Non-performing investments as at 30 June 2014 are Rs. 3. This represents 3 preference share investments which have each been written down to Rs.1.

(ix) *Movement of provisions for depreciation on investments*

	<i>(Rs '000)</i>
	As at 30 June 2014
Opening balance	662,401
Provisions during the year	-
Write offs during the year	-
Write back of excess provisions during the year	(367,174)
Closing balance	295,227

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 June 2014

4 Disclosures for portfolios subject to 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; 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 1 July 2013.

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%

Risk weight mapping of short term corporate ratings

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

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 June 2014

4 Disclosures for portfolios subject to standardised approach (Continued)

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;
- Moody's; 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

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

Risk weight mapping of foreign sovereigns

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

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%

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 June 2014

4 Disclosures for portfolios subject to standardised approach (Continued)

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

	<i>(Rs '000)</i>
	As at
	30 June 2014
Below 100% risk weight	846,233,189
100% risk weight	402,563,182
Above 100% risk weight	34,927,835
Deductions*	(6,423,743)
Total	1,277,300,463

* Deduction represents amounts deducted from Tier I Capital