

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 quarter ended 30 June 2020

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 Capital Regulations vide RBI Circular DBR. No. BP. BC. 1/21.06.201/2015-16 dated July 1, 2015 as amended from time to time. 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 regulatory capital 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 regulatory scope of 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'. This includes, in addition to the Bank 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	Principal activity of the entity	Total balance sheet equity*	Total balance sheet assets*
HSBC InvestDirect Financial Services (India) Limited (HIFSL) (Note 1)	Non-banking Finance company	1,462,847	8,413,816

* As stated in the audited balance sheet of the legal entity as at 31 March 2020

Note 1. HIFSL is 'Systemically important non-deposit taking non-banking financial company' ('NBFC-ND-SI') governed by Reserve Bank of India ('RBI').

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

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.

(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	Principal activity of the entity	Total balance sheet equity*	Total balance sheet assets*
HSBC Asset Management (India) Private Limited	Asset management/portfolio management	615,909	1,679,466
HSBC Electronic Data Processing India Private Limited	Back office / data processing / call center activities	3,554,678	20,631,061
HSBC Global Shared Services (India) Private Limited	Non-operating company (under liquidation)	25,000	50,074
HSBC InvestDirect (India) Limited	Holding company for HSBC InvestDirect Group	712,713	5,118,978
HSBC InvestDirect Employees Welfare Trust	Non-operating company	15	18,586
HSBC InvestDirect Sales & Marketing (India) Limited	Non-operating company	1,000	38,058
HSBC InvestDirect Securities (India) Private Limited	Retail securities broking and related activities (Non-operating company)	Equity - 875,112 0.001% Compulsory Convertible Preference shares - 870,000	151,066
HSBC Professional Services (India) Private Limited	Providing internal audit services to Group companies	4,838	295,345
HSBC Securities and Capital Markets (India) Private Limited	Stock broking and corporate finance & advisory	Equity - 4,701,139 Preference – 250,000	6,801,819
HSBC Software Development (India) Private Limited	Software design, development and maintenance	327,264	25,006,000
Canara HSBC Oriental Bank of Commerce Life Insurance Company Limited	Life insurance	9,500,000	150,902,863

* As stated in the audited balance sheet of the legal entity as at 31 March 2019

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 ('RMM') 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 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 30 June 2020, 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 30 June 2020
(i) Common Equity Tier I (CET1)	5.50%
(ii) Capital Conservation Buffer (CCB) - (Refer note I)	1.87%
(iii) Counter-cyclical Buffer (CCCB) - (Refer note II)	-
(iv) Global Systemically Important Bank (G-SIB) - (Refer note III)	1.82%
Minimum Common Equity Tier I (i+ii+iii+iv)	9.19%
Minimum Tier I Capital	10.69%
Total Minimum Capital Adequacy Ratio	12.69%

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

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2. Capital Adequacy & Structure (*Continued*)

a. Capital Adequacy (*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% in a phased manner. Current CCB stands at 1.88%. As stated by RBI in Bi-monthly policy dated 27 March 2020, it has been decided to defer the implementation of the last tranche of 0.625% of the CCB from March 31, 2020 to September 30, 2020.*
- 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 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, 2019-20 issued on 4th April 2019, 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 for FY 2019-20.*
- 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, 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. Accordingly, 1.82% had been added to minimum requirement towards G-SIB as of 30 June 2020.*

The Bank continues to monitor developments and believes 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

(Rs. '000)

	Standalone		Consolidated	
	As at 30 Jun 2020	As at 31 Mar 2020	As at 30 Jun 2020	As at 31 Mar 2020
Capital	44,991,660	44,991,660	46,454,507	46,454,507
Eligible Reserves	162,212,581	162,220,502	165,317,153	165,265,559
- Capital reserves (excl. revaluation reserve)	90,855,494	90,855,494	90,855,494	90,855,494
- Statutory Reserves	67,194,431	67,194,431	67,194,431	67,194,431
- Specific Reserves	3,244,721	3,244,721	3,244,721	3,244,721
- Free Reserves	0	0	3,104,571	3,045,057
- Revaluation Reserves at a discount of 55 per cent	917,935	925,856	917,935	925,856
Less: Deductions from Tier I Capital	-408,397	-647,369	-414,777	-653,749
- Intangible asset	-136,831	-145,651	-140,231	-149,051
- Deferred Tax Asset ('DTA') (Note 1)	0	0	-2,980	-2,980
- Investment in subsidiaries in India	-35	-35	-35	-35
- Debit Value Adjustments (DVA)	-271,531	-501,683	-271,531	-501,683
- Defined Benefit Pension Fund Asset	0	0	0	0
Common Equity Tier I Capital	206,795,844	206,564,793	211,356,883	211,066,317
Additional Tier I Capital	0	0	0	0
Total Tier I Capital	206,795,844	<u>206,564,793</u>	211,356,883	<u>211,066,317</u>

Note 1: As per RBI guidelines as on 01 March 2016, DTA which was deducted from CET1 capital, can be recognised in the CET1 up to a limit of 10% of Bank's CET1 capital (after application of regulatory adjustments mentioned in RBI Master Circular on Basel-III Capital Regulations dated 01 July 2015.). Accordingly, DTA of Rs. 4,771,822 ('000) (previous year: Rs. 4,771,822 ('000)) is not deducted.

(ii) Tier 2 capital for the bank

(Rs. '000)

	Standalone		Consolidated	
	As at 30 Jun 2020	As at 31 Mar 2020	As at 30 Jun 2020	As at 31 Mar 2020
General Loss Provisions	9,988,826	10,014,391	9,989,348	10,014,993
Other Eligible Reserves	2,670,172	2,670,172	2,670,172	2,670,172
Investment Fluctuation Reserves	12,176,040	12,176,040	12,176,040	12,176,040
Total Tier II Capital (Note 1)	24,835,038	<u>24,860,603</u>	24,835,560	<u>24,861,205</u>

Note 1: There is no debt capital instrument and subordinated debt outstanding as at 30 June 2020 (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

- Standalone and Consolidated

(Rs '000)

	Standalone		Consolidated	
	As at 30 Jun 2020	As at 31 Mar 2020	As at 30 Jun 2020	As at 31 Mar 2020
I. Capital required for Credit Risk	132,227,115	132,049,945	133,193,374	133,198,147
- For portfolios subject to Standardised approach	132,227,115	132,049,945	133,193,374	133,198,147
II. Capital required for Market Risk	33,205,058	33,095,430	33,205,058	33,095,430
(Standard Duration Approach)				
- Interest rate risk	27,148,814	26,661,228	27,148,814	26,661,228
- Foreign exchange risk	1,570,388	1,569,150	1,570,388	1,569,150
- Equity risk	472,833	472,461	472,833	472,461
- Securitisation exposure	4,013,023	4,392,591	4,013,023	4,392,591
III. Capital required for Operational Risk	18,734,623	17,006,188	18,734,623	17,006,188
(Basic Indicator Approach)				
Total capital requirement (I + II + III)	184,166,796	182,151,563	185,133,055	183,299,764
Total capital funds of the Bank	231,630,882	231,425,396	236,192,443	235,927,522
Total risk weighted assets	1,451,274,989	1,436,526,519	1,457,716,713	1,444,181,198
Total capital ratio	15.96%	16.11%	16.20%	16.34%
Common Equity Tier I Capital Ratio	14.25%	14.38%	14.50%	14.61%
Tier I capital ratio	14.25%	14.38%	14.50%	14.61%

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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 Wealth and Personal Banking (WPB).

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 Hong Kong 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 wholesale 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*)

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3. Credit risk (*Continued*)

a. General (*Continued*)

Strategy and Processes (*Continued*)

- The WPB Risk function is responsible for monitoring the quality of the Wealth and Personal Banking (WPB) lending portfolio. For retail lending, INM has developed credit application scorecards (which make use of statistical models & historical data) and defined policy parameters to assess the borrowers. 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). Policy rules are built into the system to enable online checks. This may also be supplemented with judgmental lending as appropriate. The judgmental aspect tries to identify the financial strength, ability and intentions of borrowers for repayment.
- First Line of Defense (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 WPB 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 WPB Risk Second Line of Defense (SLOD) underwriting team. Cases beyond the limit of Head-WPB Risk are approved by the Retail Credit Committee (RCC).
- For retail risk, the INM WPB 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 WPB.
- All material risks are covered under robust framework for Risk Appetite Statements (RAS) and Risk Tolerance triggers. 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 delineate 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.

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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)

- 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.
- 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 (FIs / 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 delegation of limits to Head WMR, WMR executives including LMU will be approved by EXCO, and the CRO will only communicate the delegated limits to the respective staff. For Retail, the ASP Head of WPB Risk delegates lending authority to the India WPB Risk Head who, in turn, delegates the lending authority to underwriters in WPB 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 centralized 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 for the Bank

(Rs '000)

	Fund based ^{Note 1}	Non fund based ^{Note 2}	As at 30 Jun 2020 Total
Overseas	-	-	-
Domestic	1,063,573,363	710,239,174	1,773,812,537
Total	1,063,573,363	710,239,174	1,773,812,537

(Rs '000)

	Fund based ^{Note 1}	Non fund based ^{Note 2}	As at 31 March 2020 Total
Overseas	-	-	-
Domestic	1,131,425,842	769,916,559	1,901,342,401
Total	1,131,425,842	769,916,559	1,901,342,401

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

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

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

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3. Credit risk (Continued)

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

(ii) Industry type distribution of exposures for the Bank as at 30 June 2020

	(Rs '000)		
Industry	Funded	Non Funded	Total
Mining and Quarrying	0	29,019	29,018.92
Food Processing	8,733,412	2,134,125	10,867,537
Beverages (excluding Tea & Coffee) and Tobacco	1,950,052	1,257,330	3,207,382
Textiles	9,552,125	2,152,851	11,704,976
Leather and Leather products	167,559	12,346	179,905
Wood and Wood Products	1,508,232	198,877	1,707,109
Paper and Paper Products	2,381,801	997,578	3,379,379
Petroleum (non-infra), Coal Products (non-mining) and Nuclear Fuels	10,243	3,592,281	3,602,524
Chemicals and Chemical Products (Dyes, Paints, etc.)	41,442,381	43,147,441	84,589,822
Rubber, Plastic and their Products	15,807,696	4,306,854	20,114,550
Glass & Glassware	872,514	1,689,655	2,562,169
Cement and Cement Products	6,098,023	2,402,112	8,500,135
Basic Metal and Metal Products	14,096,015	10,808,387	24,904,402
All Engineering	53,652,762	69,943,543	123,596,305
Vehicles, Vehicle Parts and Transport Equipments	29,234,804	22,509,652	51,744,456
Gems and Jewellery	108	428	536
Construction	482,756	2,861,429	3,344,185
Infrastructure	38,784,731	31,210,870	69,995,601
NBFCs and trading	121,430,192	24,115,136	145,545,328
Banking and finance	159,591,861	205,328,382	364,920,244
Computer Software	1,653,101	20,769,388	22,422,489
Professional Services	55,442,518	164,311,498	219,754,016
Commercial Real Estate	139,429,536	1,835,903	141,265,439
Other Industries	91,119,485	80,876,313	171,995,798
Retail	101,709,559	13,747,777	115,457,336
Others*	168,421,897	0	168,421,897
Total	1,063,573,363	710,239,174	1,773,812,537

Note: Exposure is comprised of Loans & Advances, Credit equivalent of guarantees, acceptances, letters of credit, other Non-Market Related off balance sheet obligations, credit equivalent of derivative exposures, Balance with Banks and Money at call and short notice.

* Others include Cash and balances with RBI, Fixed Assets and Other Assets

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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 2020

	(Rs '000)		
Industry	Funded	Non Funded	Total
Mining and Quarrying	-	39,019	39,019
Food Processing	5,678,884	2,266,304	7,945,188
Beverages (excluding Tea & Coffee) and Tobacco	1,500,010	966,308	2,466,318
Textiles	12,618,139	2,939,341	15,557,480
Leather and Leather products	145,530	36,015	181,545
Wood and Wood Products	1,464,728	177,329	1,642,057
Paper and Paper Products	2,749,596	1,520,837	4,270,433
Petroleum (non-infra), Coal Products (non-mining) and Nuclear Fuels	-	4,083,397	4,083,397
Chemicals and Chemical Products (Dyes, Paints, etc.)	45,336,440	37,300,538	82,636,978
Rubber, Plastic and their Products	19,260,650	6,039,482	25,300,132
Glass & Glassware	1,113,198	1,507,248	2,620,446
Cement and Cement Products	6,739,295	2,040,642	8,779,937
Basic Metal and Metal Products	15,386,489	11,575,418	26,961,907
All Engineering	51,063,870	66,506,811	117,570,681
Vehicles, Vehicle Parts and Transport Equipments	26,688,625	21,774,760	48,463,385
Gems and Jewellery	-	428	428
Construction	350,000	2,767,332	3,117,332
Infrastructure	40,270,534	39,231,290	79,501,824
NBFCs and trading	117,447,828	28,357,292	145,805,120
Banking and finance	276,517,042	193,268,523	469,785,565
Computer Software	2,840,101	25,978,949	28,819,050
Professional Services	60,075,194	229,163,675	289,238,869
Commercial Real Estate	119,210,094	1,849,847	121,059,941
Other Industries	97,287,682	77,166,325	174,454,007
Retail	109,003,655	13,359,450	122,363,105
Others*	118,678,257	-	118,678,257
Total	1,131,425,842	769,916,559	1,901,342,401

* Others include Cash and balances with RBI, Fixed Assets and Other Assets

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

For the quarter ended 30 June 2020

3. Credit risk (Continued)

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

(iii) Residual contractual maturity breakdown of total assets for the bank

As at 30 June 2020

(Rs'000)

	Cash & balances with RBI	Balance with Banks & Money at call & Short Notice	Investments	Advances	Fixed Assets	Other Assets
1 day	46,094,562	179,498,152	364,310,501	24,631,958	-	6,284,835
2 to 7 days	-	-	8,491,768	32,452,355	-	11,216,910
8 to 14 days	-	-	8,509,173	20,252,269	-	1,334,531
15 to 30 days	12,243,477	-	69,679,419	53,417,249	-	8,541,960
31 days & upto 3 months	7,229,090	9,949,166	42,520,058	123,254,362	-	25,027,247
Over 3 months and upto 6 months	2,146,764	-	20,226,008	77,278,127	-	29,178,060
Over 6 months and upto 1 year	1,814,472	1,887,625	29,514,482	80,650,748	-	39,846,084
Over 1 year and upto 3 years	3,114,125	6,417,925	86,551,083	117,670,713	-	78,517,755
Over 3 years and upto 5 years	1,874,694	-	15,657,545	113,212,347	-	51,879,829
Over 5 years	13,071,377	-	71,330,827	116,996,374	7,697,348	36,435,557
TOTAL	87,588,562	197,752,868	716,790,863	759,816,502	7,697,348	288,262,769

As at 31 March 2020

(Rs'000)

	Cash & balances with RBI	Balance with Banks & Money at call & Short Notice	Investments	Advances	Fixed Assets	Other Assets
1 day	7,238,165	34,689,594	248,971,206	9,639,604	-	6,988,437
2 to 7 days	-	160,548,115	49,676,878	60,320,410	-	25,267,930
8 to 14 days	-	3,783,250	91,343,796	21,099,449	-	4,716,960
15 to 30 days	9,847,543	-	62,475,208	70,912,948	-	40,263,306
31 days & upto 3 months	5,877,993	-	36,305,171	106,075,432	-	57,786,256
Over 3 months and upto 6 months	1,662,228	-	20,324,652	77,865,715	-	36,163,388
Over 6 months and upto 1 year	1,463,146	1,891,625	28,548,388	74,129,817	-	54,406,734
Over 1 year and upto 3 years	2,791,166	6,431,525	87,894,169	118,143,421	-	86,301,295
Over 3 years and upto 5 years	1,875,170	-	18,916,120	111,846,185	-	41,412,457
Over 5 years	12,120,754	-	71,764,548	115,773,679	7,641,321	18,543,137
TOTAL	42,876,165	207,344,109	716,220,135	765,806,660	7,641,321	371,849,900

The Hongkong and Shanghai Banking Corporation Limited

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

For the quarter ended 30 June 2020

3. Credit risk (Continued)

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

(iv) Amount of Non-Performing Assets (NPAs) (Gross) for the bank

	As at 30 Jun 2020	As at 31 March 2020
Substandard	2,641,065	2,529,194
Doubtful 1	496,814	416,818
Doubtful 2	884,584	860,223
Doubtful 3	1,686,922	2,136,738
Loss	497,501	750,293
Total	6,206,886	6,693,266

(v) Net NPAs

The net NPAs are Rs. 1,229 million (previous year: Rs. 1,262 million). Please see table (vi) below.

(vi) Movement of NPAs for the bank

	As at 30 June 2020		
	Gross NPA's	Provision	Net NPA
Opening balance as at 1 April 2020	6,693,266	5,431,346	1,261,920
Additions during the period	945,485	484,394	461,091
Reductions during the period	(1,431,865)	(938,182)	(493,683)
Closing balance as at 30 June 2020	6,206,886	4,977,558	1,229,328

	As at 31 March 2020		
	Gross NPA's	Provision	Net NPA
Opening balance as at 1 April 2019	5,977,082	4,685,912	1,291,170
Additions during the period	4,694,120	2,292,990	2,401,130
Reductions during the period	(3,977,936)	(1,547,556)	(2,430,380)
Closing balance as at 31 March 2020	6,693,266	5,431,346	1,261,920

(vii) NPA ratios for the bank

	As at 30 June 2020	As at 31 March 2020
Gross NPAs to gross advances	0.81%	0.87%
Net NPAs to net advances	0.16%	0.16%

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

For the quarter ended 30 June 2020

3. Credit risk (Continued)

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

(viii) General Provisions

General provisions comprise of provision towards standard assets including additional provision for stressed sector, Covid-19 provision, country risk and Unhedged Foreign Currency Exposure (UFCE).

(ix) Non-performing investments

Non-performing investments as at 30 June 2020 are Rs. 2 (previous year: Rs. 2). This represents preference/equity share investments which have been written down to Rs.2.

(x) Movement of provisions for depreciation on investments for the bank

	As at 30 June 2020	As at 31 March 2020
Opening balance	71,960	485,348
Provisions during the year	-	-
Write offs during the year	-	-
Write back of excess provisions during the year	(71,495)	(413,388)
Closing balance	465	71,960

(Rs'000)

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

As at 30 June 2020

	NPA	Past Due Loans	Provision	Specific Provision during the year	Write off during the year
1.Agriculture	871,655	-	643,427	-	-
2. Advances to Industries sector	797,883	428,315	796,608	-	410,548
of which:					
2.1 Chemicals and Chemical Products	141,163	239,333	140,860	-	-
2.2 All Engineering	-	16,319	-	-	34,887
2.3 Infrastructure	134,734	-	134,734	-	302,021
2.4 Paper and Paper Products	281,421	6,848	281,421	-	-
2.5 Textile	240,560	34,630	239,593	-	73,640
3. Services	1,161,545	239,524	1,245,155	26,883	353,465
of which:					
3.1 Trade	1,018,788	102,474	1,072,829	25,686	84,206
3.2 Commercial Real Estate	53,562	1,902	53,562	-	-
3.3 NBFC	89,035	-	118,764	1,197	-
4. Retail	3,375,803	1,055,504	2,292,368	457,512	313,523
Total	6,206,886	1,723,343	4,977,558	484,395	1,077,536

(Rs '000)

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

For the quarter ended 30 June 2020

3. Credit risk (Continued)

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

As at 31 March 2020

(Rs '000)

	NPA	Past Due Loans	Provision	Specific Provision during the year	Write off during the year
1. Agriculture	871,655	1,606	643,427	587,931	-
2. Advances to Industries sector	1,206,050	2,635,499	1,209,001	23,024	178,223
of which:					
2.1 Chemicals and Chemical Products	141,249	1,457,358	141,397	8,346	-
2.2 All Engineering	34,887	408,232	34,887	-	61,038
2.3 Infrastructure	433,946	6,555	436,754	-	-
2.4 Paper and Paper Products	281,421	24,745	281,421	-	-
2.5 Textile	314,541	224,705	314,541	14,678	59,272
3. Services	1,467,933	103,129	1,653,478	265,065	62,134
of which:					
3.1 Trade	1,055,917	97,629	1,213,091	92,245	63,899
3.2 Commercial Real Estate	53,562	-	53,562	75,998	-
3.3 NBFC	89,035	-	117,567	44,099	-
4. Retail	3,147,627	2,451,796	1,925,439	1,416,970	944,620
Total	6,693,266	5,192,031	5,431,346	2,292,990	1,184,977

(xii) Write offs and recoveries directly booked to income statement for the bank

(Rs '000)

	For the period ended 30 June 2020	For the year ended 31 March 2020
Write offs	322,728	1,007,425
Recoveries	22,487	301,318

(xiii) Ageing of past due loans for the bank

(Rs '000)

	As at 30 Jun 2020	As at 31 Mar 2020
Overdue less than 30 days	1,062,927	4,468,545
Overdue for 30 to 60 days	268,123	488,093
Overdue for 60 to 90 days	392,293	235,393
Total	1,723,343	5,192,031

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

For the quarter ended 30 June 2020

3. Credit risk (Continued)

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

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

As at 30 June 2020		(Rs '000)	
	NPA	Past Due Loan	
Overseas	-	-	
Domestic	6,206,886	1,723,343	
Total	6,206,886	1,723,343	

As at 31 March 2020		(Rs '000)	
	NPA	Past Due Loan	
Overseas	-	-	
Domestic	6,693,266	5,192,031	
Total	6,693,266	5,192,031	

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) ACUITE
- g) Infomeric

The Bank applies only solicited 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 Bank has not made any discrimination among ratings assigned by these agencies nor has restricted their usage to any particular type of exposure.

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.

For assets in the Bank's portfolio that have contractual maturity less than or equal to one year, short term ratings accorded by the chosen credit rating agencies are considered relevant. For other assets, which have a contractual maturity of more than one year, long term ratings accorded by the chosen credit rating agencies are considered relevant.

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

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

For the quarter ended 30 June 2020

4. Disclosures for portfolios under the Standardised approach (Continued)

Risk weight mapping of Long term and short term corporate ratings

Long Term Ratings of all ECAs	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	ACUITE	
CARE A1 +	CRISIL A1 +	FITCH A1 +	ICRA A1 +	BRICKWORK A1+	ACUITE A1+	20%
CARE A1	CRISIL A1	FITCH A1	ICRA A1	BRICKWORK A1	ACUITE A1	30%
CARE A2	CRISIL A2	FITCH A2	ICRA A2	BRICKWORK A2	ACUITE A2	50%
CARE A3	CRISIL A3	FITCH A3	ICRA A3	BRICKWORK A3	ACUITE A3	100%
CARE A4	CRISIL A4	FITCH A4	ICRA A4	BRICKWORK A4	ACUITE A4	150%
CARE D	CRISIL D	FITCH D	ICRA D	BRICKWORK D	ACUITE D	150%
Unrated	Unrated	Unrated	Unrated	Unrated	Unrated	100%*

* As per RBI guidelines dated 25th Aug 2016, 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.

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%. The implementation of these guidelines was deferred by RBI till 31 March 19, however the same is applicable from April 2019.

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%

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

For the quarter ended 30 June 2020

4. Disclosures for portfolios under the Standardised approach (Continued)

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

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

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%

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%

Exposure under various risk buckets (post Credit Risk Mitigants)

(Rs'000)

	As at 30 June 2020	As at 31 March 2020
Below 100% risk weight	1,183,685,615	1,322,831,438
100% risk weight	311,893,120	281,907,583
Above 100% risk weight	223,245,279	239,276,098
Deductions*	(408,397)	(647,369)
Total	1,718,415,617	1,843,367,750

*Deduction represents amounts deducted from Tier I Capital

Note: Exposure is comprised of Loans & Advances, Credit equivalent of guarantees, acceptances, letter of credit, other Non-Market Related off balance sheet obligations, credit equivalent of derivative exposures post CRM.

*As per RBI guidelines as on 01 March 2016, DTA which was deducted from CET1 capital, can be recognised in the CET1 up to a limit of 10% of Bank's CET1 capital (after application of regulatory adjustments mentioned in RBI Master Circular on Basel-III Capital Regulations dated 01 July 2015.). Currently DTA is 2.36% of Bank's CET1 capital. Accordingly, there is no deduction on account of DTA for 30 June 2020.

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

For the quarter ended 30 June 2020

5. Leverage Ratio

Standalone Leverage ratio as of 30 Jun 2020

(Rs '000)

Particulars	At 30 Jun 2020	At 31 Mar 2020	At 31 Dec 2019	At 30 Sep 2019
Tier 1 Capital	206,795,844	206,564,793	199,439,545	205,203,899
Exposure Measure	2,676,046,464	2,750,353,167	2,263,298,178	2,317,735,710
Leverage Ratio*	7.73%	7.51%	8.81%	8.85%

*As per RBI Master circular no. DBR.No.BP.BC.1/21.06.201/2015-16 dated 01 July 2015.

Note: The consolidated leverage ratio is 7.88% as on 30 June 20.