

# 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 31 December 2021

### 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 accordance 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	6,664,110

\* As stated in the audited balance sheet of the legal entity as at 31 March 2021

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

# The Hongkong and Shanghai Banking Corporation Limited

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

For the period ended 31 December 2021

### 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	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	1,978,180
HSBC Electronic Data Processing (India) Private Limited	Back office / data processing / call centre activities	3,554,678	31,033,280
HSBC Global Shared Services (India) Private Limited	Under liquidation	-	-
HSBC InvestDirect (India) Limited	Holding company for HSBC InvestDirect Group	709,544	5,238,291
HSBC InvestDirect Employees' Welfare Trust	Non-operating company	15	18,573
HSBC InvestDirect Sales & Marketing (India) Limited	Non-operating company	1,000	38,900
HSBC InvestDirect Securities (India) Private Limited.	Retail securities broking and related activities (Discontinued)	1,745,112	154,727
HSBC Professional Services (India) Private Limited	Providing internal audit services to Group companies	4,838	372,978
HSBC Securities and Capital Markets (India) Private Limited	Stock broking and corporate finance & advisory	Equity - 4,701,139 Preference - 250,000	8,434,254
HSBC Software Development (India) Private Limited	Software design, development and maintenance	327,264	31,962,000
Canara HSBC Oriental Bank of Commerce Life Insurance Company Limited	Life insurance	9,500,000	218,124,957
HSBC GIFT City International Banking Unit	Banking	1,454,885	2,204,726

\* As stated in the audited balance sheet of the legal entity as at 31 March 2021

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.

# The Hongkong and Shanghai Banking Corporation Limited

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

For the period ended 31 December 2021

### 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 31 December 2021, 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 Dec 2021
(i) Common Equity Tier I (CET1)	5.50%
(ii) Capital Conservation Buffer (CCB) - (Refer note I)	2.50%
(iii) Counter-cyclical Buffer (CCyB) - (Refer note II)	-
(iv) Global Systemically Important Bank (G-SIB) - (Refer note III)	1.98%
<b>Minimum Common Equity Tier I (i+ii+iii+iv)</b>	<b>9.98%</b>
<b>Minimum Tier I Capital</b>	<b>11.48%</b>
<b>Total Minimum Capital Adequacy Ratio</b>	<b>13.48%</b>

# The Hongkong and Shanghai Banking Corporation Limited

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

For the period ended 31 December 2021

### 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 2.50% in a phased manner. Current CCB stands at 2.50% with effect from 01 October 2021.*
- II. *RBI issued guidelines on CCyB framework for banks in India in February 2015. The CCyB 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 CCyB 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 press release date April 1, 2020, a review of CCyB indicators was carried out by the RBI and it has been decided that it is not necessary to activate CCyB in India at this point in time.*
- III. *The Reserve Bank of India (RBI) released the framework on D-SIB requirements for banks operating in India in July 2014. Banks may become systemically important due to their size, cross-jurisdictional activity, complexity, interconnectedness and lack of substitutability. As per the RBI guidelines, 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, 1.98% had been added to minimum requirement towards G-SIB as of 31 Dec 2021.*

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)

For the period ended 31 December 2021

### 2. Capital Adequacy & Structure (Continued)

#### b. Capital Structure

##### (i) Composition of Tier 1 capital for the bank

(Rs. '000)

	Standalone		Consolidated	
	As at 31 Dec 2021	As at 31 March 2021	As at 31 Dec 2021	As at 31 March 2021
<b>Capital</b>	<b>44,991,660</b>	44,991,660	<b>46,454,507</b>	46,454,507
<b>Eligible Reserves</b>	<b>172,435,329</b>	171,967,699	<b>175,773,051</b>	175,191,069
- Capital reserves (excl. revaluation reserve)	<b>91,610,155</b>	90,855,494	<b>91,610,155</b>	90,855,494
- Statutory Reserves	<b>76,274,208</b>	76,274,208	<b>76,274,208</b>	76,274,208
- Specific Reserves	<b>4,075,342</b>	4,075,342	<b>4,075,342</b>	4,075,342
- Free Reserves	-	-	<b>3,337,723</b>	3,223,371
- Revaluation Reserves at a discount of 55 per cent	<b>475,624</b>	762,655	<b>475,624</b>	762,655
<b>Less: Deductions from Tier I Capital</b>	<b>(298,230)</b>	(325,708)	<b>(304,674)</b>	(331,738)
- Intangible asset	<b>(131,096)</b>	(152,308)	<b>(135,000)</b>	(155,708)
- Deferred Tax Asset ('DTA') (Note 1)	-	-	<b>(2,540)</b>	(2,630)
- Investment in subsidiaries in India	<b>(276)</b>	(275)	<b>(276)</b>	(275)
- Debit Value Adjustments (DVA)	<b>(166,858)</b>	(173,125)	<b>(166,858)</b>	(173,125)
- Defined Benefit Pension Fund Asset	-	-	-	-
<b>Common Equity Tier I Capital</b>	<b>217,128,759</b>	216,633,650	<b>221,922,884</b>	221,313,838
<b>Additional Tier I Capital</b>	-	-	-	-
<b>Total Tier I Capital</b>	<b><u>217,128,759</u></b>	<u>216,633,650</u>	<b><u>221,922,884</u></b>	<u>221,313,838</u>

Note 1: For Standalone, 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. 3,896,106 ('000) (previous year: Rs. 3,896,106 ('000)) is not deducted.

##### (ii) Tier 2 capital for the bank

(Rs. '000)

	Standalone		Consolidated	
	As at 31 Dec 2021	As at 31 March 2021	As at 31 Dec 2021	As at 31 March 2021
General Loss Provisions	<b>10,343,982</b>	8,198,485	<b>10,344,566</b>	8,199,082
Other Eligible Reserves	<b>2,700,287</b>	2,700,287	<b>2,700,287</b>	2,700,287
Investment Fluctuation Reserves	<b>16,699,040</b>	16,699,040	<b>16,699,040</b>	16,699,040
<b>Total Tier II Capital (Note 1)</b>	<b><u>29,743,309</u></b>	<u>27,597,812</u>	<b><u>29,743,893</u></b>	<u>27,598,409</u>

Note 1: There is no debt capital instrument and subordinated debt outstanding as at 31 Dec 2021 (previous year: Nil) included in Tier II Capital.

# The Hongkong and Shanghai Banking Corporation Limited

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

For the period ended 31 December 2021

### 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 31 Dec 2021	As at 31 March 2021	As at 31 Dec 2021	As at 31 March 2021
<b>I. Capital required for Credit Risk</b>	<b>157,255,383</b>	131,068,627	<b>158,185,143</b>	131,983,540
- For portfolios subject to Standardised approach	157,255,383	131,068,627	158,185,143	131,983,540
<b>II. Capital required for Market Risk</b>	<b>39,120,699</b>	32,967,887	<b>39,120,699</b>	32,967,887
<b>(Standard Duration Approach)</b>				
- Interest rate risk	<b>31,781,698</b>	24,690,224	<b>31,781,698</b>	24,690,224
- Foreign exchange risk	<b>3,336,300</b>	3,163,050	<b>3,336,300</b>	3,163,050
- Equity risk	<b>706,025</b>	669,362	<b>706,025</b>	669,362
- Securitisation exposure	<b>3,296,676</b>	4,445,251	<b>3,296,676</b>	4,445,251
<b>III. Capital required for Operational Risk</b>	<b>23,037,080</b>	18,867,492	<b>23,037,080</b>	18,867,492
<b>(Basic Indicator Approach)</b>				
<b>Total capital requirement (I + II + III)</b>	<b>219,413,162</b>	182,904,006	<b>220,342,922</b>	183,818,919
<b>Total capital funds of the Bank</b>	<b>246,872,068</b>	244,231,462	<b>251,666,777</b>	248,912,247
<b>Total risk weighted assets</b>	<b>1,627,694,081</b>	1,431,173,755	<b>1,633,892,480</b>	1,437,273,176
<b>Total capital ratio</b>	<b>15.17%</b>	17.07%	<b>15.40%</b>	17.32%
<b>Common Equity Tier I Capital Ratio</b>	<b>13.34%</b>	15.14%	<b>13.58%</b>	15.40%
<b>Tier I capital ratio</b>	<b>13.34%</b>	15.14%	<b>13.58%</b>	15.40%

# 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 31 December 2021*

### **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.
- Wholesale Credit and Market Risk Management (WMR) independently assesses the credit profile of the customer and the applications are then approved in the committee. All the credit proposals in wholesale banking are approved by Credit Committee. There are eight levels of credit committees, each with different membership and approval authorities, depending on the size and complexities of the proposal. The WMR function has the responsibility of setting and managing strategy, policy, appetite, expectations and standards for wholesale credit and market risk.

# 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 31 December 2021

### 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 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.
- WPB Credit Control Services (CCS) manages the First Line of Defense (FLOD) activities i.e. Underwriting and Collections. CCS at an entity level reports into the WPB Chief Operating Office and functionally into the Regional CCS structure. CCS underwriting team decisions cases within the approved policy parameters whereas exceptions / deviations in policy (ELA) and/or basis the exposure, cases are further recommended to the respective Credit Committees for review and decisioning.
- 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 Meeting 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.
- The bank has various policies to support the management of the wholesale credit risk. Some of the key policies are highlighted below:
- 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.
- The bank has sustainability risk policies to ensure management of reputation risk in high risk sectors.
- Stress Testing Policy & Framework for rigorous risk specific and Enterprise-wide stress testing and reporting is used to assess the credit risk on the portfolio.
- 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.



# The Hongkong and Shanghai Banking Corporation Limited

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

For the period ended 31 December 2021

### 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. All the credit proposals in wholesale banking are approved by Credit Committee as delegated by the CRO. There are eight levels of credit committees, each with different membership and approval authorities, depending on the size and complexities of the proposal. For Retail, EXCO will delegate lending authority to the Retail Credit Committees and delegate lending authority at a 'band' level to WPB officers. WPB Risk Head will communicate the EXCO delegated limits to individual WPB officers. 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.

# The Hongkong and Shanghai Banking Corporation Limited

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

For the period ended 31 December 2021

### 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.

Subject to the minimum provisioning levels prescribed by the RBI, provision on homogeneous loans relating to retail business (excluding mortgage loans) are assessed on a portfolio basis using the historical loss or net flow rate methods.

#### b. Quantitative disclosures for portfolios under the Standardised approach

##### (i) Total gross credit risk exposures by geography for the Bank

(Rs '000)

	Fund based <sup>Note 1</sup>	Non fund based <sup>Note 2</sup>	As at 31 Dec 2021 Total
Overseas	-	-	-
Domestic	1,552,646,520	738,697,609	2,291,344,129
<b>Total</b>	<b>1,552,646,520</b>	<b>738,697,609</b>	<b>2,291,344,129</b>

(Rs '000)

	Fund based <sup>Note 1</sup>	Non fund based <sup>Note 2</sup>	As at 31 March 2021 Total
Overseas	-	-	-
Domestic	1,468,725,351	729,247,185	2,197,972,536
<b>Total</b>	<b>1,468,725,351</b>	<b>729,247,185</b>	<b>2,197,972,536</b>

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

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

# The Hongkong and Shanghai Banking Corporation Limited

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

For the period ended 31 December 2021

### 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 31 Dec 2021

	(Rs '000)		
Industry	Funded	Non Funded	Total
Mining and Quarrying	-	2,205,934	2,205,934
Food Processing	10,609,890	3,794,874	14,404,764
Beverages (excluding Tea & Coffee) and Tobacco	2,546,411	564,282	3,110,693
Textiles	12,755,934	4,207,541	16,963,475
Leather and Leather products	232,951	77,170	310,121
Wood and Wood Products	1,528,255	355,990	1,884,245
Paper and Paper Products	3,764,406	452,030	4,216,436
Petroleum (non-infra), Coal Products (non-mining) and Nuclear Fuels	-	201,780	201,780
Chemicals and Chemical Products (Dyes, Paints, etc.)	41,661,456	52,139,692	93,801,148
Rubber, Plastic and their Products	22,374,439	5,437,262	27,811,701
Glass & Glassware	476,329	1,297,519	1,773,848
Cement and Cement Products	8,485,565	5,042,032	13,527,597
Basic Metal and Metal Products	19,845,602	13,095,966	32,941,568
All Engineering	31,556,100	62,982,336	94,538,436
Vehicles, Vehicle Parts and Transport Equipments	27,212,734	21,182,095	48,394,829
Gems and Jewellery	-	2,642,565	2,642,565
Construction	9,391,720	21,900,647	31,292,367
Infrastructure	47,886,829	44,741,496	92,628,325
NBFCs and trading	226,332,058	68,171,345	294,503,403
Banking and finance	623,939,310	150,835,055	774,774,365
Computer Software	2,568,254	18,746,732	21,314,986
Professional Services	57,366,431	175,617,935	232,984,366
Commercial Real Estate	106,821,881	7,251,559	114,073,440
Other Industries	54,594,438	62,480,677	117,075,115
Retail	79,227,412	13,273,095	92,500,507
Others*	161,468,115	-	161,468,115
<b>Total</b>	<b>1,552,646,520</b>	<b>738,697,609</b>	<b>2,291,344,129</b>

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

# The Hongkong and Shanghai Banking Corporation Limited

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

For the period ended 31 December 2021

### 3. Credit risk (Continued)

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

Industry type distribution of exposures as at 31 March 2021

	(Rs '000)		
Industry	Funded	Non Funded	Total
Mining and Quarrying	-	934	934
Food Processing	9,052,312	3,371,507	12,423,819
Beverages (excluding Tea & Coffee) and Tobacco	3,483,062	3,634,538	7,117,600
Textiles	8,755,502	4,397,620	13,153,122
Leather and Leather products	181,423	41,281	222,704
Wood and Wood Products	1,390,984	305,538	1,696,522
Paper and Paper Products	3,148,838	686,247	3,835,085
Petroleum (non-infra), Coal Products (non-mining) and Nuclear Fuels	666,091	243,116	909,207
Chemicals and Chemical Products (Dyes, Paints, etc.)	37,344,422	49,413,306	86,757,728
Rubber, Plastic and their Products	14,118,515	4,450,129	18,568,644
Glass & Glassware	53,182	1,434,167	1,487,349
Cement and Cement Products	6,715,890	3,869,816	10,585,706
Basic Metal and Metal Products	24,609,149	13,880,469	38,489,618
All Engineering	35,774,227	60,512,936	96,287,163
Vehicles, Vehicle Parts and Transport Equipments	22,145,445	21,123,043	43,268,488
Gems and Jewellery	41	1,337,918	1,337,959
Construction	5,556,935	19,965,477	25,522,412
Infrastructure	44,740,254	28,931,249	73,671,503
NBFCs and trading	152,317,399	51,845,338	204,162,737
Banking and finance	591,764,084	167,746,937	759,511,022
Computer Software	1,156,461	20,120,988	21,277,449
Professional Services	37,784,164	201,281,385	239,065,550
Commercial Real Estate	134,943,772	2,985,971	137,929,744
Other Industries	97,618,187	54,276,954	151,895,141
Retail	79,006,378	13,390,320	92,396,699
Others*	156,398,633	-	156,398,633
<b>Total</b>	<b>1,468,725,351</b>	<b>729,247,185</b>	<b>2,197,972,536</b>

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

# 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 31 December 2021

### 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 31 Dec 2021

(Rs'000)

	Cash & balances with RBI	Balance with Banks & Money at call & Short Notice	Investments	Advances	Fixed Assets	Other Assets
1 day	1,499,445	7,760,774	627,236,369	8,943,924	-	8,709,706
2 to 7 days	-	255,142,545	88,392,949	4,778,229	-	6,040,790
8 to 14 days	-	-	11,563,319	18,806,310	-	1,523,748
15 to 30 days	21,276,054	82,926,678	30,572,209	61,517,095	-	4,054,217
31 days & upto 3 months	13,397,095	52,217,228	22,041,200	78,350,790	-	26,842,849
Over 3 months and upto 6 months	3,927,119	15,306,548	6,049,418	80,317,787	-	14,564,448
Over 6 months and upto 1 year	4,212,321	22,736,643	16,609,828	74,361,538	-	17,889,394
Over 1 year and upto 3 years	7,062,700	27,527,953	30,769,858	160,092,029	-	47,196,392
Over 3 years and upto 5 years	1,813,724	7,069,265	8,849,747	144,925,416	-	21,606,181
Over 5 years	23,773,131	92,795,664	5,364,744	130,609,403	7,283,428	35,260,146
<b>TOTAL</b>	<b>76,961,589</b>	<b>563,483,298</b>	<b>847,449,641</b>	<b>762,702,521</b>	<b>7,283,428</b>	<b>183,687,871</b>

As at 31 March 2021

(Rs'000)

	Cash & balances with RBI	Balance with Banks & Money at call & Short Notice	Investments	Advances	Fixed Assets	Other Assets
1 day	12,866,176	29,947,978	624,346,414	5,243,861	-	311,694
2 to 7 days	-	162,269,384	79,279,688	9,252,014	-	12,432,893
8 to 14 days	-	-	6,884,449	18,697,172	-	3,365,600
15 to 30 days	14,961,495	64,209,408	2,748,090	59,557,787	-	12,491,896
31 days & upto 3 months	10,872,896	46,662,595	39,156,635	78,470,728	-	23,108,479
Over 3 months and upto 6 months	2,919,415	12,529,089	9,741,562	82,034,688	-	25,723,309
Over 6 months and upto 1 year	2,809,858	12,058,909	31,473,922	72,921,889	-	29,278,085
Over 1 year and upto 3 years	5,646,937	30,448,994	33,789,376	145,020,614	-	66,978,313
Over 3 years and upto 5 years	3,423,709	14,693,340	5,996,407	136,396,760	-	25,057,067
Over 5 years	17,382,128	74,597,899	1,526,058	109,135,229	7,781,039	22,956,368
<b>TOTAL</b>	<b>70,882,614</b>	<b>447,417,595</b>	<b>834,942,600</b>	<b>716,730,742</b>	<b>7,781,039</b>	<b>221,703,705</b>

# The Hongkong and Shanghai Banking Corporation Limited

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

For the period ended 31 December 2021

### 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 31 Dec 2021	As at 31 Mar 2021
Substandard	1,571,216	4,742,888
Doubtful 1	1,826,261	1,627,210
Doubtful 2	495,946	403,560
Doubtful 3	1,569,431	1,885,817
Loss	174,259	466,564
<b>Total</b>	<b>5,637,113</b>	<b>9,126,039</b>

(v) Net NPAs

The net NPAs are Rs. 1,101 million (previous year: Rs. 2,902 million). Please see table (vi) below.

(vi) Movement of NPAs for the bank

	As at 31 Dec 2021		
	Gross NPA's	Provision	Net NPA
Opening balance as at 1 April 2021	9,126,039	6,223,749	2,902,290
Additions during the period	2,827,577	1,297,898	1,529,679
Reductions during the period	(6,316,503)	(2,985,073)	(3,331,430)
<b>Closing balance as at 31 Dec 2021</b>	<b>5,637,113</b>	<b>4,536,574</b>	<b>1,100,539</b>

	As at 31 March 2021		
	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	5,926,666	3,336,872	2,589,794
Reductions during the period	(3,493,893)	(2,544,469)	(949,424)
<b>Closing balance as at 31 March 2021</b>	<b>9,126,039</b>	<b>6,223,749</b>	<b>2,902,290</b>

(vii) NPA ratios for the bank

	As at 31 Dec 2021	As at 31 March 2021
Gross NPAs to gross advances	0.73%	1.26%
Net NPAs to net advances	0.14%	0.40%

# The Hongkong and Shanghai Banking Corporation Limited

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

For the period ended 31 December 2021

### 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 31 Dec 2021 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 31 Dec 2021	As at 31 Mar 2021
Opening balance	665	71,960
Provisions during the year	11,218,363	-
Write offs during the year	-	-
Write back of excess provisions during the year	-	(71,295)
<b>Closing balance</b>	<b>11,219,028</b>	<b>665</b>

(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 31 Dec 2021

	NPA	Past Due Loans	Provision	Specific Provision during the year	Write off during the year
1. Agriculture	870,936	60,433	807,354	40	-
2. Advances to Industries sector	540,573	556,868	540,479	3,881	223,205
of which:					
2.1 Chemicals and Chemical Products	120,686	52,738	120,786	1,018	9,709
2.2 All Engineering	-	24,329	-	-	-
2.3 Infrastructure	134,740	-	134,740	6	-
2.4 Paper and Paper Products	281,441	11,696	281,441	20	-
2.5 Textile	195	83,889	-	2,836	213,489
3. Services	1,075,079	8,585	1,086,442	44,891	70,894
of which:					
3.1 Trade	948,626	-	952,747	37,770	-
3.2 Commercial Real Estate	-	-	-	-	70,701
3.3 NBFC	74,926	-	82,133	-	-
4. Retail	3,150,526	1,774,302	2,102,299	1,249,086	1,882,767
<b>Total</b>	<b>5,637,113</b>	<b>2,400,189</b>	<b>4,536,574</b>	<b>1,297,898</b>	<b>2,176,866</b>

(Rs '000)

The Hongkong and Shanghai Banking Corporation Limited  
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**Basel III – Pillar 3 disclosures of India Branches (Continued)**

For the period ended 31 December 2021

**3. Credit risk (Continued)**

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

As at 31 March 2021

(Rs '000)

	<b>NPA</b>	<b>Past Due Loans</b>	<b>Provision</b>	<b>Specific Provision during the year</b>	<b>Write off during the year</b>
1. Agriculture	871,655	-	807,207	165,027	-
2. Advances to Industries sector	793,397	749,967	796,849	1,171	494,754
of which:					
2.1 Chemicals and Chemical Products	136,918	85,569	139,418	289	-
2.2 All Engineering	497	51,815	797	797	34,887
2.3 Infrastructure	134,734	2,883	134,734	-	302,021
2.4 Paper and Paper Products	281,421	25,712	281,421	1	-
2.5 Textile	235,451	28,777	235,451	85	73,640
3. Services	1,894,382	130,158	1,523,846	455,112	269,259
of which:					
3.1 Trade	1,771,018	126,049	1,400,299	452,316	-
3.2 Commercial Real Estate	-	-	-	-	-
3.3 NBFC	75,014	-	75,014	-	-
4. Retail	5,566,605	948,459	3,095,846	2,715,562	1,087,537
<b>Total</b>	<b>9,126,039</b>	<b>1,828,584</b>	<b>6,223,749</b>	<b>3,336,872</b>	<b>1,851,550</b>

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

(Rs '000)

	<b>For the period ended 31 Dec 2021</b>	<b>For the year ended 31 Mar 2021</b>
Write offs	<b>1,981,161</b>	1,925,820
Recoveries	<b>392,955</b>	240,611

(xiii) Ageing of past due loans for the bank

(Rs '000)

	<b>As at 31 Dec 2021</b>	<b>As at 31 Mar 2021</b>
Overdue less than 30 days	<b>2,033,683</b>	1,430,527
Overdue for 30 to 60 days	<b>292,349</b>	273,532
Overdue for 60 to 90 days	<b>74,157</b>	124,525
<b>Total</b>	<b>2,400,189</b>	1,828,584



# The Hongkong and Shanghai Banking Corporation Limited

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

For the period ended 31 December 2021

### 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 31 Dec 2021		(Rs '000)	
	NPA	Past Due Loan	
Overseas	-	-	
Domestic	5,637,113	2,400,189	
Total	5,637,113	2,400,189	

As at 31 March 2021		(Rs '000)	
	NPA	Past Due Loan	
Overseas	-	-	
Domestic	9,126,039	1,828,584	
Total	9,126,039	1,828,584	

### 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:

- Credit Analysis and Research Limited (CARE)
- CRISIL Limited
- India Ratings and Research Private Limited (FITCH)
- ICRA Limited
- Brickwork Ratings India Pvt Limited
- ACUITE
- Infomeric

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 accordance 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:

# The Hongkong and Shanghai Banking Corporation Limited

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

For the period ended 31 December 2021

### 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 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	ACUITE	INFOM ERICS	
CARE A1 +	CRISIL A1 +	FITCH A1 +	ICRA A1 +	BRICKWORK A1+	ACUITE A1+	IVRA1+	20%
CARE A1	CRISIL A1	FITCH A1	ICRA A1	BRICKWORK A1	ACUITE A1	IVR A1	30%
CARE A2	CRISIL A2	FITCH A2	ICRA A2	BRICKWORK A2	ACUITE A2	IVR A2	50%
CARE A3	CRISIL A3	FITCH A3	ICRA A3	BRICKWORK A3	ACUITE A3	IVR A3	100%
CARE A4	CRISIL A4	FITCH A4	ICRA A4	BRICKWORK A4	ACUITE A4	IVR A4	150%
CARE D	CRISIL D	FITCH D	ICRA D	BRICKWORK D	ACUITE D	IVR D	150%
Unrated	Unrated	Unrated	Unrated	Unrated	Unrated	Unrated	100%*

\*

As per RBI guidelines dated 25<sup>th</sup> 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%

# The Hongkong and Shanghai Banking Corporation Limited

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

For the period ended 31 December 2021

### 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;
- Moody's; 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

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

#### Risk weight mapping of foreign sovereigns / foreign central banks

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

#### Risk weight mapping of foreign public sector entities

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

#### Risk weight mapping of non-resident corporates

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

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

(Rs'000)

	As at 31 Dec 2021	As at 31 Mar 2021
Below 100% risk weight	<b>1,622,663,959</b>	1,598,603,985
100% risk weight	<b>326,959,502</b>	341,264,775
Above 100% risk weight	<b>314,627,396</b>	234,159,017
Deductions*	<b>(298,230)</b>	(325,468)
<b>Total</b>	<b>2,263,952,627</b>	2,173,702,309

\*Deduction represents amounts deducted from Tier I Capital

Note: Exposure comprises 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 Credit Risk Mitigants (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 1.83% of Bank's CET1 capital. Accordingly, there is no deduction on account of DTA for 31 Dec 21.

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

For the period ended 31 December 2021

### 5. Leverage Ratio

Standalone Leverage ratio as of 31 Dec 2021

(Rs '000)

Particulars	At 31 Dec 2021	At 30 Sep 2021	At 30 Jun 2021	At 31 Mar 2021
Tier 1 Capital	217,128,759	217,100,451	216,682,354	216,633,650
Exposure Measure	3,157,771,157	3,141,986,255	3,093,082,462	3,097,980,369
<b>Leverage Ratio*</b>	<b>6.88%</b>	<b>6.91%</b>	<b>7.01%</b>	<b>6.99%</b>

\*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 7.01% as on 31 Dec 21