HSBC

The Hongkong and Shanghai Banking Corporation Limited – India Branches
(Incorporated in Hong Kong SAR with limited liability)

INDEPENDENT AUDITOR'S REPORT
To the Chief Executive Officer
The Hongkong and Shanghai Banking Corporation Limited - India Branches

Report on the Audit of the Standalone Financial Statements

Opinion

We have audited the standalone financial statements of The Hongkong and Shanghai Banking Corporation Limited – India Branches, which comprise the Balance Sheet as at March 31, 2020, the Profit and Loss Account, Cash Flow Statement for the year then ended, and notes to the standalone financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid financial statements give the information required by the Banking Regulation Act, 1949 as well as the Companies Act, 2013 ("the Act"), in the manner so required for Banking Companies and give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Bank as at March 31, 2020, its profit and its cash flows for the year ended on that date.

Basis for Opinion

We conducted our audit in accordance with the Standards on Auditing (SAs) specified under Section 143(10) of the Act. Our responsibilities under those Standards are further described in the Auditor's Responsibilities for the Audit of the Standalone Financial Statements section of our report. We are independent of the Bank in accordance with the Code of Ethics issued by the Institute of Chartered Accountants of India ("the ICAI") together with the ethical requirements that are relevant to our audit of the standalone financial statements under the provisions of the Act and the Rules thereunder, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note 5.6 (ba) of schedule 18 to the standalone financial statements, which describes that the extent to which the COVID-19 Pandemic will impact the Bank's standalone financial statements will depend on future developments, which are highly uncertain.

Our opinion is not modified in respect of this matter.

Information Other Than the Standalone Financial Statements and Auditor's Report Thereon

The Bank's Executive Committee is responsible for the other information. The other information comprises the Basel III - Pillar 3 Disclosures.

Our opinion on the standalone financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the standalone financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the standalone financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for Standalone Financial Statements

The Bank's Management is responsible for the matters stated in Section 134(5) of the Act with respect to the preparation of these standalone financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Bank in accordance with the accounting principles generally accepted in India, including the Accounting Standards specified under Section 133 of the Act and provisions of Section 29 of the Banking Regulation Act, 1949 and circulars, guidelines and directions issued by the Reserve Bank of India from time to time as applicable to Bank. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the Bank and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the standalone financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

In preparing the standalone financial statements, the Management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

The Management is also responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Standalone Financial Statements

Our objectives are to obtain reasonable assurance about whether the standalone financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with SAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these standalone financial statements.

As part of an audit in accordance with SAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the standalone financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances. Under Section 143(3)(i) of the Act, we are also responsible for expressing our opinion on whether the Bank has internal financial controls with reference to the standalone financial statements in place and the operating effectiveness of such controls.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our Auditor's report to the related disclosures in the standalone financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the standalone financial statements, including the disclosures, and whether the standalone financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Report on Other Legal and Regulatory Requirements

1. The Balance Sheet and the Profit and Loss Account have been drawn up in accordance with the provisions of Section 29 of the Banking Regulation Act, 1949 read with Section 133 of the Companies Act, 2013 read with Rule 7 of the Companies (Accounts) Rules, 2014.
2. As required by sub-section 3 of Section 30 of the Banking Regulation Act, 1949, we report that:
   a) We have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit and have found them to be satisfactory;
   b) The transactions of the Bank, which have come to our notice during the course of our audit, have been within the powers of the Bank;
   c) During the course of our audit we have visited six branches to examine the books of account and other records maintained at the branch and performed other relevant audit procedures. Since the key operations of the Bank are automated with the key applications integrated to the core banking system, the audit is carried out centrally in Mumbai as all the necessary records and data required for the purpose of our audit are available therein.
3. As required by Section 143(3) of the Act, we report that:
   a) We have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
   b) In our opinion, proper books of account as required by law have been kept by the Bank so far as it appears from our examination of those books;
   c) The Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt with by this Report are in agreement with the books of account;
   d) In our opinion, the aforesaid standalone financial statements comply with the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014 to the extent they are not inconsistent with the accounting policies prescribed by the Reserve Bank of India;
   e) The requirement of Section 164 (2) of the Companies Act, 2013 is not applicable to the Bank considering it is a branch of The Hongkong and Shanghai Banking Corporation Limited, which is incorporated and registered in the Hongkong Special Administrative Region with Limited Liability;
   f) With respect to the adequacy of the internal financial controls with reference to standalone financial statements of the Bank and the operating effectiveness of such controls, refer to our separate Report in "Annexure A";
   g) With respect to the other matters to be included in the Auditor's Report in accordance with the requirements of section 197(16) of the Act, as amended;

      The Bank is a Banking Company as defined under Banking Regulation Act, 1949. Accordingly, the requirements prescribed under section 197 of the Companies Act, 2013 do not apply; and
   h) With respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014, in our opinion and to the best of our knowledge and belief and according to the information and explanations given to us:
      i. The Bank has disclosed the impact of pending litigations as at March 31, 2020 on its financial position in its standalone financial statements – Refer Schedule 12 and Note 5.3 of Schedule 18 to the standalone financial statements;
      ii. The Bank has made provision as at March 31, 2020, as required under the applicable law or accounting standard, for material foreseeable losses, if any, on long term contracts including derivative contracts. Refer Note 5.6 (aj) and Note 5.13 of Schedule 18 to the standalone financial statement; and
      iii. There were no amounts which were required to be transferred to the Investor Education and Protection Fund by the Bank.

For MSKA & Associates
Chartered Accountants
ICAI Firm Registration Number: 105047W

Swapnil Kale
Partner
Membership No. 117812
UDIN: 20117812AAAAHW9996

Mumbai
June 25, 2020

ANNEXURE A TO THE INDEPENDENT AUDITOR'S REPORT OF EVEN DATE ON THE STANDALONE FINANCIAL STATEMENTS OF THE HONKONG AND SHANGHAI BANKING CORPORATION LIMITED – INDIA BRANCHES

[Referred to in paragraph 3(f) under 'Report on Other Legal and Regulatory Requirements' in the Independent Auditor's Report of even date to the Members of The Hongkong and Shanghai Banking Corporation Limited – India Branches on the Financial Statements for the year ended March 31, 2020]

Report on the Internal Financial Controls under Clause (i) of Sub-section 3 of Section 143 of the Companies Act, 2013 ("the Act")

We have audited the internal financial controls with reference to standalone financial statements of The Hongkong and Shanghai Banking Corporation Limited – India Branches ("the Bank") as of March 31, 2020 in conjunction with our audit of the financial statements of the Bank for the year ended on that date.

Management's Responsibility for Internal Financial Controls

The Bank's Management is responsible for establishing and maintaining internal financial controls based on the internal control with reference to financial statements criteria established by the Bank considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India (ICAI) (the "Guidance Note"). These responsibilities include the design, implementation and maintenance of internal financial controls that were operating effectively for ensuring the orderly and efficient conduct of its business, including adherence to Bank's policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, as required under the Act.

Auditor's Responsibility

Our responsibility is to express an opinion on the Bank's internal financial controls with reference to standalone financial statements based on our audit. We conducted our audit in accordance with the Guidance Note and the Standards on Auditing, issued by ICAI and deemed to be prescribed under section 143(10) of the Act, to the extent applicable to an audit of internal financial controls. Those Standards and the Guidance Note require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether internal financial controls with reference to standalone financial statements was established and maintained and if such controls operated effectively in all material respects.

Our audit involves performing procedures to obtain audit evidence about the adequacy of the internal financial controls with reference to standalone financial statements and their operating effectiveness. Our audit of internal financial controls with reference to financial statements included obtaining an understanding of internal financial controls with reference to financial statements, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the standalone financial statements, whether due to fraud or error.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the Bank's internal financial controls with reference to standalone financial statements.

Meaning of Internal Financial Controls With Reference to Standalone Financial Statements

A Bank's internal financial control with reference to standalone financial statements is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of standalone financial statements for external purposes in accordance with generally accepted accounting principles. A Bank's internal financial control with reference to standalone financial statements includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Bank; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of standalone financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Bank are being made only in accordance with authorizations of management of the Bank; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Bank's assets that could have a material effect on the standalone financial statements.

Inherent Limitations of Internal Financial Controls With Reference to Standalone Financial Statements

Because of the inherent limitations of internal financial controls with reference to financial statements, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal financial controls with reference to standalone financial statements to future periods are subject to the risk that the internal financial control with reference to standalone financial statements may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinion

In our opinion, the Bank has, in all material respects, an adequate internal financial controls with reference to standalone financial statements and such internal financial controls with reference to standalone financial statements were operating effectively as at March 31, 2020, based on the internal control with reference to standalone financial statements criteria established by the Bank considering the essential components of internal control stated in the Guidance Note.

For **MSKA & Associates**
Chartered Accountants
ICAI Firm Registration Number: 105047W

Swapnil Kale
Partner
Membership No. 117812
UDIN: 20117812AAAAHW9996

Mumbai
June 25, 2020

The Hongkong and Shanghai Banking Corporation Limited – India Branches
(Incorporated in Hong Kong SAR with limited liability)

Balance Sheet as at 31 March 2020

(Currency: Indian rupees in thousands)

	Schedules	**As at 31 March 2020**	As at 31 March 2019
Capital and liabilities			
Capital	*1*	**44,991,660**	44,991,660
Reserves and surplus	*2*	**213,627,232**	185,821,432
Deposits	*3*	**1,249,029,877**	1,026,096,713
Borrowings	*4*	**244,417,354**	333,516,295
Other liabilities and provisions	*5*	**359,672,139**	174,249,166
Total		**2,111,738,262**	1,764,675,266
Assets			
Cash and balances with Reserve Bank of India	*6*	**42,876,165**	42,537,288
Balances with banks and money at call and short notice	*7*	**207,344,109**	131,500,452
Investments	*8*	**716,220,130**	709,737,621
Advances	*9*	**765,806,656**	669,046,305
Fixed assets	*10*	**7,641,322**	7,801,275
Other assets	*11*	**371,849,880**	204,052,325
Total		**2,111,738,262**	1,764,675,266
Contingent liabilities	*12*	**19,042,025,160**	13,377,822,160
Bills for collection		**231,005,296**	212,611,704
Significant accounting policies and notes to the Financial Statements	*18*		

Schedules referred to herein form an integral part of the Balance Sheet.

Profit and Loss Account for the year ended 31 March 2020

(Currency: Indian rupees in thousands)

	Schedules	**For the year ended 31 March 2020**	For the year ended 31 March 2019
Income			
Interest earned	*13*	**116,396,308**	99,745,787
Other income	*14*	**21,626,155**	20,639,208
Total		**138,022,463**	120,384,995
Expenditure			
Interest expended	*15*	**46,093,088**	45,018,601
Operating expenses	*16*	**35,253,238**	30,242,963
Provisions and contingencies	*17*	**28,899,894**	19,467,089
Total		**110,246,220**	94,728,653
Net profit for the year		**27,776,243**	25,656,342
Profit brought forward		**19,609,515**	23,388,422
Total		**47,385,758**	49,044,764
Appropriations			
Transfer to Statutory Reserve		**6,944,061**	6,414,086
Transfer to Remittable Surplus retained in India for Capital to Risk-weighted Assets Ratio (CRAR) requirements		**–**	6,028,635
Transfer to/(from) Investment Reserve		**174,615**	243,613
Transfer to Specific Reserve		**668,052**	665,053
Profit Remitted to Head Office		**–**	11,283,862
Transfer to Investments Fluctuation Reserve		**7,376,040**	4,800,000
Balance carried over to balance sheet		**32,222,990**	19,609,515
Total		**47,385,758**	49,044,764
Significant accounting policies and notes to the Financial Statements	*18*		

Schedules referred to herein form an integral part of the Profit and Loss Account.

This is the Balance Sheet referred to in our report of even date.

This is the Profit and Loss account referred to in our report of even date.

For MSKA & Associates
Chartered Accountants
Firm Registration No: 105047W

For The Hongkong and Shanghai Banking Corporation Limited – India Branches

Sd/-
Swapnil Kale
Partner
Membership No: 117812

Sd/-
Amitabh Nevatia
Chief Financial Officer

Sd/-
Surendra Rosha
Group General Manager and Chief Executive Officer India

Mumbai
25 June 2020

The Hongkong and Shanghai Banking Corporation Limited – India Branches
(Incorporated in Hong Kong SAR with limited liability)

Cash flow statement for the year ended 31 March 2020

(Currency: Indian rupees in thousands)

		For the year ended 31 March 2020	For the year ended 31 March 2019
Cash flow from operating activities			
Net profit before taxes		**51,604,990**	45,446,274
Adjustments for:			
Depreciation on fixed assets		**727,266**	776,945
Release of depreciation on investments		**(413,388)**	(576,736)
Provision/(release) for advances		**5,399,860**	(77,177)
Other provisions		**84,675**	331,070
(Profit) on sale of fixed assets		**(54)**	(429)
		57,403,349	45,899,947
Adjustments for:			
Increase in investments (excluding held to maturity securities)		**(6,069,121)**	(144,874,376)
Increase in advances		**(98,363,655)**	(154,427,876)
Increase in deposits		**222,933,164**	104,403,750
Increase in other assets		**(166,085,452)**	(93,946,240)
Increase in other liabilities and provisions		**181,520,641**	75,997,761
		133,935,577	(212,846,981)
Direct taxes paid (Net)		**(25,535,000)**	(19,445,282)
Net cash from/(used in) operating activities	*(A)*	**165,803,926**	(186,392,316)
Cash flow from investing activities			
Purchase of fixed assets		**(523,446)**	(536,303)
Proceeds from sale of fixed assets		**995**	782
Net cash (used in)/from investing activities	*(B)*	**(522,451)**	(535,521)
Cash flow from financing activities			
(Decrease)/Increase in borrowings (Net)		**(89,098,941)**	124,768,656
Profit remitted to Head Office		**–**	(11,283,862)
Net cash from/(used in) financing activities	*(C)*	**(89,098,941)**	113,484,794
Net increase/(decrease) in cash and cash equivalents	*(A) + (B) + (C)*	**76,182,534**	(73,443,043)
Cash and cash equivalents as at 1 April		**174,037,740**	247,480,783
Cash and cash equivalents as at 31 March		**250,220,274**	174,037,740

Note: Cash and cash equivalents comprise cash in hand and in ATMs, balances with Reserve Bank of India and balances with banks and money at call and short notice (refer to schedule 6 and 7 of the Balance Sheet).
The above Cash Flow Statement has been prepared under "Indirect Method" as set out in Accounting Standard-3 Cash Flow Statements under Section 133 of Companies Act, 2013 read with Rule 7 of Companies (Accounts) Rules, 2014 and the Companies (Accounting Standards) Amendment Rules, 2016.
This is the Cash Flow Statement referrred to in our report of even date.

For MSKA & Associates
Chartered Accountants
Firm Registration No: 105047W

Sd/-
Swapnil Kale
Partner
Membership No: 117812

Mumbai
25 June 2020

For The Hongkong and Shanghai Banking Corporation Limited – India Branches

Sd/-
Amitabh Nevatia
Chief Financial Officer

Sd/-
Surendra Rosha
Group General Manager and
Chief Executive Officer India

The Hongkong and Shanghai Banking Corporation Limited – India Branches
(Incorporated in Hong Kong SAR with limited liability)

Schedules forming part of the Balance Sheet as at 31 March 2020

(Currency: Indian rupees in thousands)

			As at 31 March 2020	As at 31 March 2019
1		**Capital**		
	I	Amount of deposit kept with the Reserve Bank of India under Section 11(2) (b) of the Banking Regulation Act, 1949.	**62,000,000**	57,550,000
	II	**Capital**		
		Opening balance	**44,991,660**	44,991,660
			44,991,660	44,991,660
2		**Reserves and Surplus**		
	I	**Statutory Reserve**		
		Opening balance	**60,250,370**	53,836,284
		Additions during the year	**6,944,061**	6,414,086
			67,194,431	60,250,370
	II	**Capital Reserves – Surplus on sale of Immovable properties**		
		Opening balance	**5,674,609**	5,674,609
			5,674,609	5,674,609
	III	**Capital Reserves**		
		Opening balance	**13,261,565**	13,261,565
			13,261,565	13,261,565
	IV	**Remittable Surplus retained in India for Capital to Risk-weighted Assets Ratio (CRAR) requirements**		
		Opening balance	**71,919,320**	65,890,685
		Add : Transfer from profit and loss account *(refer to schedule 18 note 5.1)*	**–**	6,028,635
			71,919,320	71,919,320
	V	**Revaluation Reserve**		
		Opening balance	**5,233,827**	5,017,117
		(Less)/Add: Revaluation of premises net of depreciation on revaluation uplift	**29,557**	216,710
			5,263,384	5,233,827
	VI	**Investment Reserve**		
		Opening balance	**2,495,557**	2,251,944
		Transfer from/(to) the Profit and Loss account	**174,615**	243,613
			2,670,172	2,495,557
	VII	**Specific Reserve** *(refer to schedule 18 note 5.4)*		
		Opening balance	**2,576,669**	1,911,616
		Additions during the year	**668,052**	665,053
			3,244,721	2,576,669
	VIII	**Investment Fluctuation Reserve** *(refer to schedule 18 note 5.5)*		
		Opening balance	**4,800,000**	-
		Additions during the year	**7,376,040**	4,800,000
			12,176,040	4,800,000
	IX	**Balance in Profit and Loss Account**	**32,222,990**	19,609,515
		TOTAL (I+II+III+IV+V+VI+VII+VIII+IX)	**213,627,232**	185,821,432

			As at 31 March 2020	As at 31 March 2019
3		**Deposits**		
A.	**I.**	**Demand Deposits**		
		i) From banks	**3,888,041**	6,580,509
		ii) From others	**429,202,865**	289,447,771
		Total i) and ii)	**433,090,906**	296,028,280
	II.	**Savings Bank Deposits**	**136,630,925**	120,893,256
	III.	**Term Deposits**		
		i) From banks	**12,020,701**	11,438,647
		ii) From others	**667,287,345**	597,736,530
		Total i) and ii)	**679,308,046**	609,175,177
		TOTAL (I+II+III)	**1,249,029,877**	1,026,096,713
B.	**I.**	Deposits of branches in India	**1,249,029,877**	1,026,096,713
	II.	Deposits of branches outside India	**–**	–
		TOTAL (I+II)	**1,249,029,877**	1,026,096,713
4		**Borrowings**		
	I	**Borrowings in India**		
		i) Reserve Bank of India	**98,250,878**	219,170,000
		ii) Other banks	**–**	–
		iii) Other institutions and agencies	**101,282,266**	76,619,527
		iv) Subordinated debt	**–**	–
		Total i), ii), iii) and iv)	**199,533,144**	295,789,527
	II	**Borrowings outside India**	**44,884,210**	37,726,768
		TOTAL (I+II)	**244,417,354**	333,516,295
		Secured borrowings included in I above	**186,760,744**	286,732,027
5		**Other liabilities and provisions**		
	I	Bills payable	**1,664,738**	1,643,650
	II	Inter-office adjustments (net)	**–**	–
	III	Interest accrued	**9,277,977**	8,527,861
	IV	Provision towards standard assets *(refer to schedule 18 Note 5.6 (s))*	**8,571,724**	4,775,169
	V	Others (including provisions)	**340,157,700**	159,302,486
		TOTAL (I+II+III+IV+V)	**359,672,139**	174,249,166
6		**Cash and balances with Reserve Bank of India**		
	I	Cash in hand and in ATMs (including foreign currency notes)	**1,572,997**	1,265,086
	II	Balances with the Reserve Bank of India		
		i) In current account	**41,303,168**	41,272,202
		ii) In other accounts	**–**	–
		Total i) and ii)	**41,303,168**	41,272,202
		TOTAL (I+II)	**42,876,165**	42,537,288

The Hongkong and Shanghai Banking Corporation Limited – India Branches
(Incorporated in Hong Kong SAR with limited liability)

Schedules forming part of the Balance Sheet as at 31 March 2020

(Currency: Indian rupees in thousands)

	As at 31 March 2020	As at 31 March 2019
7 Balances with banks and money at call and short notice		
I In India		
i) Balances with banks		
a) in current accounts	**2,584,433**	2,532,142
b) in other deposit accounts	**12,106,400**	11,064,800
Total a) and b)	**14,690,833**	13,596,942
ii) Money at call and short notice		
a) with banks	**102,000,000**	26,000,000
b) with other institutions	**51,359,940**	4,906,643
Total a) and b)	**153,359,940**	30,906,643
Total i) and ii)	**168,050,773**	44,503,585
II Outside India		
i) In current accounts	**4,026,686**	3,665,092
ii) In other deposit accounts	**–**	–
iii) Money at call and short notice	**35,266,650**	83,331,775
Total i), ii) and iii)	**39,293,336**	86,996,867
TOTAL (I+II)	**207,344,109**	131,500,452
8 Investments		
A. Investments in India in *(refer to schedule 18 note 5.6 (d))*		
i) Government securities	**581,479,691**	548,098,486
ii) Other approved securities	**–**	–
iii) Shares	**136,100**	136,100
iv) Debentures and bonds	**46,427,069**	72,363,764
v) Subsidiaries and/or joint ventures	**35**	35
vi) Others (CDs, CPs, Pass Through Certificates etc)	**88,177,235**	89,139,236
TOTAL i), ii), iii), iv), v) and vi)	**716,220,130**	709,737,621
B. Gross value of Investments in India	**716,292,090**	710,222,969
Aggregate provision for depreciation in India	**(71,960)**	(485,348)
Net Value of Investments in India	**716,220,130**	709,737,621
9 Advances		
A. i) Bills purchased and discounted	**84,932,014**	97,035,444
ii) Cash credits, overdrafts and loans repayable on demand	**304,236,610**	265,692,829
iii) Term loans	**376,638,032**	306,318,032
TOTAL i), ii) and iii)	**765,806,656**	669,046,305
B. i) Secured by tangible assets (including advances against book debt)	**399,488,140**	369,800,674
ii) Covered by Bank / Government guarantees	**14,472,880**	14,319,581
iii) Unsecured	**351,845,636**	284,926,050
TOTAL i), ii) and iii)	**765,806,656**	669,046,305

	As at 31 March 2020	As at 31 March 2019
CI. Advances in India		
i) Priority sectors	**106,737,226**	76,817,896
ii) Public sector	**5,900,000**	11,600,000
iii) Banks	**35,014,704**	–
iv) Others	**618,154,726**	580,628,409
TOTAL i), ii), iii) and iv)	**765,806,656**	669,046,305
CII. Advances ouside India	**–**	–
TOTAL CI and CII	**765,806,656**	669,046,305
10 Fixed Assets		
I Premises (including leasehold improvements) *(refer to schedule 18 note 5.2)*		
Cost at 1 April (including revaluation)	**9,170,383**	8,839,452
Additions during the year	**10,748**	140,306
Revaluation of premises during the year	**12,008**	190,625
Deductions during the year	**(63,477)**	–
	9,129,662	9,170,383
Depreciation to date	**(2,575,747)**	(2,263,191)
Net book value of Premises (including leasehold improvements)	**6,553,915**	6,907,192
II Other Fixed Assets (including furniture and fixtures)		
Cost at 1 April	**5,477,342**	5,188,650
Additions during the year	**237,475**	300,631
Deductions during the year	**(1,370,541)**	(11,939)
	4,344,276	5,477,342
Depreciation to date	**(3,795,141)**	(4,846,308)
Net book value of Other Fixed Assets (including furniture and fixtures)	**549,135**	631,034
III Capital Work-in-progress	**538,272**	263,049
TOTAL (I+II+III)	**7,641,322**	7,801,275
11 OTHER ASSETS		
I Inter-office adjustments (net)	**–**	–
II Interest accrued	**16,708,317**	16,632,925
III Tax paid in advance/tax deducted at source (net of provision for tax)	**7,964,945**	7,134,105
IV Deferred tax (net) *(refer to schedule 18 note 5.11)*	**4,771,822**	3,890,559
V Stationery and stamps	**3,418**	3,335
VI Non-banking assets acquired in satisfaction of claims	**–**	–
VII Items in course of collection	**–**	–
VIII Others	**342,401,378**	176,391,401
TOTAL (I+II+III+IV+V+VI+VII+VIII)	**371,849,880**	204,052,325

HSBC

The Hongkong and Shanghai Banking Corporation Limited – India Branches
(Incorporated in Hong Kong SAR with limited liability)

Schedules forming part of the Balance Sheet as at 31 March 2020

(Currency: Indian rupees in thousands)

		As at 31 March 2020	As at 31 March 2019
12	**Contingent liabilities** *(refer to schedule 18 note 5.13)*		
I	Claims against the bank not acknowledged as debts (including tax matters) (refer to schedule 18 note 5.3)	**4,699,264**	2,492,822
II	Liability for partly paid investments	**500**	500
III	Liability on account of outstanding forward exchange and derivative contracts		
	i) Forward contracts	**9,092,566,475**	4,326,477,732
	ii) Currency options	**677,291,969**	768,191,405
	iii) Derivative contracts	**8,811,184,552**	7,844,434,832
	Total i), ii) and iii)	**18,581,042,996**	12,939,103,969
IV	Guarantees given on behalf of constituents		
	i) In India	**258,497,981**	224,027,300
	ii) Outside India	**45,741,182**	74,926,033
	Total i) and ii)	**304,239,163**	298,953,333
V	Acceptances, endorsements and other obligations	**74,204,535**	63,234,607
VI	Bills rediscounted	**–**	–
VII	Other items for which the bank is contingently liable	**77,838,702**	74,036,929
	TOTAL (I+II+III+IV+V+VI+VII)	**19,042,025,160**	13,377,822,160

Schedules forming part of the Profit and Loss Account for the year ended 31 March 2020

(Currency: Indian rupees in thousands)

		For the year ended 31 March 2020	For the year ended 31 March 2019
13	**Interest earned**		
I	Interest/discount on advances/bills	**59,186,408**	48,135,446
II	Income on investments	**51,676,634**	46,697,947
III	Interest on balances with Reserve Bank of India and other inter-bank funds	**2,720,317**	2,537,623
IV	Others	**2,812,949**	2,374,771
	TOTAL (I+II+III+IV)	**116,396,308**	99,745,787
14	**Other income**		
I	Commission, exchange and brokerage (net)	**7,543,703**	7,371,854
II	Profit on sale/maturity of investments (net)	**4,705,491**	2,017,788
III	Profit on disposal of land, buildings and other assets (net)	**54**	429
IV	Profit on exchange/derivative transactions (net)	**9,152,638**	11,022,022
V	Miscellaneous income	**224,269**	227,115
	TOTAL (I+II+III+IV+V)	**21,626,155**	20,639,208
15	**Interest expended**		
I	Interest on deposits	**37,367,795**	38,702,903
II	Interest on Reserve Bank of India/inter-bank borrowings	**4,685,949**	3,503,187
III	Others	**4,039,344**	2,812,511
	TOTAL (I+II+III)	**46,093,088**	45,018,601
16	**Operating expenses**		
I	Payments to and provisions for employees	**11,547,548**	10,027,986
II	Rent, taxes and lighting	**1,362,162**	1,360,276
III	Printing and stationery	**90,424**	71,804
IV	Advertisement and publicity	**710,077**	746,139
V	Depreciation on Bank's property	**727,266**	776,945
VI	Auditors' fees and expenses	**8,500**	8,500
VII	Law charges	**83,842**	109,309
VIII	Postage, telegrams, telephones, etc.	**264,884**	242,894
IX	Repairs and maintenance	**662,146**	585,688
X	Insurance	**1,369,953**	1,252,116
XI	Other expenditure *(refer to schedule 18 note 5.6 (ao))*	**18,426,436**	15,061,306
	TOTAL (I+II+III+IV+V+VI+VII+VIII+IX+X+XI)	**35,253,238**	30,242,963
17	**Provisions and Contingencies** *(refer to schedule 18 note 5.6 (c))*		
I	Provision/(release) for advances	**5,399,860**	(77,177)
II	Release of depreciation on investments (refer to schedule 18 note 5.6 (c) and (d))	**(413,388)**	(576,736)
III	Taxation charge		
	– Current tax expense	**24,710,010**	18,654,322
	– Deferred tax (release)/charge	**(881,263)**	1,135,610
		23,828,747	19,789,932
IV	Other provisions	**84,675**	331,070
	TOTAL (I+II+III+IV)	**28,899,894**	19,467,089

Schedules forming part of the Financial Statements for the year ended 31 March 2020

(Currency: Indian rupees)

Schedule 18 – Significant accounting policies and notes to accounts

1. Background

The financial statements for the year ended 31 March 2020 comprise the accounts of 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.

2 Basis of preparation

The financial statements are prepared and presented under the historical cost convention and accrual basis of accounting, except where otherwise stated, and in accordance with the generally accepted accounting principles ('GAAP') in India and statutory requirements prescribed under the Banking Regulation Act, 1949, circulars and guidelines issued by the Reserve Bank of India ('RBI'), Accounting Standards ('AS') prescribed by the Companies Act, 2013 read together with Paragraph 7 of the Companies (Accounts) Rules 2014 and Companies (Accounting Standards) Amendment Rules, 2016 and the relevant provisions of the Companies Act 2013 to the extent applicable and current practices prevailing within the banking industry in India. The financial statements are presented in Indian Rupees rounded off to the nearest thousand, unless otherwise stated.

3 Use of estimates

The preparation of financial statements, in conformity with GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent liabilities as at the date of the financial statements. Actual results could differ from those estimates. Any revision to accounting estimates is recognised prospectively in current and future periods.

4 Significant accounting policies

4.1 Investments

(a) Accounting and Classification

Investments are recognised using the settlement date basis of accounting. In compliance with RBI guidelines, all investments, which cover both debt and equity securities, are categorised as "Held for trading" ('HFT'), "Available-for-sale" ('AFS') or "Held-to-maturity" ('HTM'). Investments acquired by the Bank with the intention of holding up to maturity are classified as HTM. Investments acquired with the intention to trade by taking advantage of short-term price/interest rate movements and are to be sold within 90 days are classified as HFT. All other investments are classified as AFS. However for the purpose of disclosure in the balance sheet, investments are classified as disclosed in Schedule 8 ('Investments').

(b) Acquisition cost

Brokerage and commission paid at the time of acquisition are charged to Profit and Loss Account. Further, cost of investments is determined based on weighted average cost method.

(c) Valuation

Investments categorised under AFS and HFT are marked-to-market on a monthly and daily basis respectively. Net depreciation, if any, in any classification mentioned in Schedule 8 ('Investments') is recognised in the profit and loss account. The net appreciation if any, under each classification is ignored, except to the extent of depreciation previously provided. The book value of individual securities is not changed consequent to periodic valuation of investments.

The mark-to-market value of investments classified as HFT and AFS is determined using Yield to Maturity ('YTM') rates/prices as notified by Financial Benchmarks India Pvt Ltd (FBIL), Fixed Income Money Market and Derivatives Association ('FIMMDA') jointly with Primary Dealers Association of India ('PDAI'). The prices, base yield curve for GOI bonds, SDLs, Corporate Bonds are notified by FBIL, while the credit spreads over the GOI curve in bps is published by FIMMDA.

Investments classified under the HTM category are carried at their acquisition cost and any premium on acquisition is amortised on a straight line basis over the remaining period to maturity. Where in the opinion of management, a diminution, other than temporary in the value of investments classified under HTM has taken place, suitable provisions are made.

Pass through certificates ('PTC') purchased have been marked to market on the basis of the base yield curve and the applicable spreads as per the spread matrix relative to the weighted average maturity of the paper as notified by FIMMDA/FBIL.

Treasury Bills, Commercial Paper, Certificates of Deposit and Zero Coupon Bonds being discounted instruments, are valued at carrying cost.

(d) Transfer between categories

Transfer of investments between categories is accounted for in accordance with RBI guidelines vide master circular DBR No. BP.BC.6/21.04.141/2015-16 dated 1 July 2015 as follows:

i) Investments classified as AFS/HFT are transferred to HTM category at the lower of book value (weighted average) and market value;

ii) Investments classified as HTM are transferred to AFS/HFT categories as follows:

- Investments originally placed in HTM at a discount, are transferred to AFS/HFT category at the acquisition price/ book value (weighted average) and;
- Investments originally placed in HTM at a premium, are transferred to AFS/HFT category at the amortised cost (weighted average);

iii) Investments classified as AFS/HFT are transferred to HFT/AFS category at book value (weighted average) and the provisions for the accumulated depreciation, if any, held is transferred to the provisions for depreciation against HFT/AFS.

(e) Accounting for repos/reverse repos (including liquidity adjustment facility)

Repurchase (repos) and reverse repurchase (reverse repos) transactions are accounted for as collateralised borrowing and lending respectively with an agreement to repurchase on agreed terms in accordance with RBI guidelines vide master circular DBR No. BP.BC.6/21.04.141/2015-16 dated 1 July 2015. The difference between the consideration amounts of first and second leg is recognised as interest income/expense over the period of the transaction in the profit and loss account. Transactions with RBI under the Liquidity Adjustment Facility (LAF) are also accounted for as collateralised borrowing and lending transactions.

Schedules forming part of the Financial Statements for the year ended 31 March 2020 (*Continued)*

(Currency: Indian rupees)

Schedule 18 – Significant accounting policies and notes to accounts *(Continued)*

4 Significant accounting policies *(Continued)*

(f) Short Sales

In accordance with the RBI guidelines, the Bank undertakes short sale transactions in Central Government dated securities. Such short positions are categorised under HFT category. These positions are marked-to-market along with the other securities under HFT portfolio and the resultant mark-to-market gains/losses are accounted for as per the relevant RBI guidelines for valuation of investments as explained under point 4.1(c).

4.2 Advances

Advances are stated net of specific provisions and interest in suspense.

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.

Provisioning for restructured assets is made in accordance with the requirements prescribed by RBI guidelines.

Provision on standard assets is made in line with the existing RBI guidelines and included in Schedule 5 ('Other Liabilities and Provisions'). The Bank also maintains provision for country risk exposures as per extant RBI guidelines and discloses the same in Schedule 5 – Other liabilities and provisions.

The Bank assesses the unhedged foreign currency exposure (UFCE) of corporate customers and adequate provisions are maintained as required by RBI guidelines. These provisions are part of standard asset provision mentioned above.

The sale of financial assets or Non-Performing Advances (NPA) to Securitisation Company (SC)/Reconstruction Company (RC) is accounted for in accordance with RBI guidelines on 'Sale of financial assets to SC/RC', wherein if the sale to SC/RC is for a value higher than the Net Book Value (NBV), the excess provision is reversed.

In case the sale of NPA is to non SC/RC then same is accounted for in accordance with the RBI guidelines on "Purchase/Sale of Non-Performing Financial Assets", wherein if the sale of non-performing advances is for a value higher than the NBV of the loans, the excess provision is not reversed but is held back to meet the shortfall/loss on account of sale of other non-performing advances and classified as additional standard asset provision subject to an overall ceiling of 1.25% of risk weighted assets. In case of a sale at a value lower than NBV, the shortfall is recognised in the profit and loss account in the year of sale after setting off any earlier provision held back on sale of other non-performing advances.

The Bank transfers advances through inter-bank participation with and without risk. In accordance with the RBI guidelines, in the case of participation with risk, the aggregate amount of participation issued by the Bank is reduced from advances and where the Bank is participating, the aggregate amount of the participation is classified under advances. In the case of participation without risk, the aggregate amount of participation issued by the Bank is classified under borrowings and where the Bank is participating, the aggregate amount of participation is shown as due from banks under advances.

4.3 Foreign Exchange Transactions

Transactions denominated in foreign currencies are recorded at rates prevailing on the date of the transaction. Exchange differences arising on foreign currency transactions settled during the period are recognised in profit and loss account of the period. Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are translated at closing rates notified by Foreign Exchange Dealers Association of India ('FEDAI') and resultant exchange differences are recognised in the profit and loss account.

The premium or discount arising at the inception of a forward exchange contract not meant for trading or speculation is amortised as expense or income over the life of the contract. Exchange differences arising on such a contract are recognised in the statement of profit and loss in the reporting period in which the exchange rates change. Any profit or loss arising on cancellation or renewal of such a forward exchange contract is recognised as income or expense for the period.

Outstanding spot and forward exchange contracts and foreign currency swaps meant for trading or speculation are revalued based on the period end exchange rates notified by FEDAI. The contracts where exchange rates are not notified by FEDAI are revalued at the forward exchange rates implied by the FX yield curves of the respective currencies. The forward exchange contracts are present valued using appropriate discount rates and the resultant gains or losses are recognised in the profit and loss account.

Contingent liabilities denominated in foreign currencies are disclosed at closing rates of exchange notified by FEDAI.

4.4 Derivative financial instruments

The Bank transacts derivatives for three primary purposes: to create risk management solutions for clients, to manage the portfolio risks arising from client business and to manage and hedge the bank's own risks. Derivatives (except for interest rate swaps which are designated as hedging instruments as per Forward Rate Agreement/Interest Rate Swap Circular Ref.No.MPD.BC.187/07.01.279/1999-2000 dated July 7, 1999) are held for trading. Trading activities include sales, market-making and risk management while hedging transactions are entered into as part of the Bank's risk management strategy relating to the Bank's assets, liabilities, positions or cash flows.

Derivatives in the form of forwards, swaps and option contracts are undertaken by the Bank in the foreign exchange and interest rate markets.

Trading transactions are marked-to-market on a daily basis and the unrealised losses or gains are recognised into the profit and loss account as 'Other Income'. Currency Options are marked-to-market using market values after considering the premium received or paid. The profit or loss on revaluation is recorded in the profit and loss account and is included in 'Other assets' or 'Other liabilities'. Accordingly, premium received and paid is recognised in the profit and loss account upon expiry or exercise of the options.

Fair value adjustments as explained in schedule 18 note 5.6 (aj) are made on a monthly basis at the minimum with the adjustment accounted for in the profit and loss account and the corresponding debit/credit posted against 'Other Liabilities'.

Schedules forming part of the Financial Statements for the year ended 31 March 2020 (*Continued)*
(Currency: Indian rupees)

Schedule 18 – Significant accounting policies and notes to accounts *(Continued)*

4 Significant accounting policies *(Continued)*

4.4 Derivative financial instruments (Continued)

Interest rate swaps designated as hedges are accounted for in line with the accounting of the underlying asset or liability. Where the underlying asset or liability is accounted for on an accrual basis the derivative is also accounted for on accrual basis. Where the designated asset or liability is carried at lower of cost or market value in the financial statements the derivatives are marked-to-market with the resulting gain or loss recorded as an adjustment to the market value of the designated asset or liability.

Gains and losses from changes in the fair value of derivatives, including the contractual interest, that do not qualify for hedge accounting are recognised immediately in the profit and loss account as ‘Other income’.

4.5 Securitisation (including assignment)

Securitisation transactions entered in to by the Bank, wherein corporate/retail loans are sold to a Special Purpose Vehicle (‘SPV’) are accounted for in accordance with the RBI guidelines.

Securitised assets are derecognised upon sale if the Bank surrenders control over the contractual rights that comprise the financial asset. In respect of credit enhancements provided or recourse obligations accepted by the Bank, appropriate provision/disclosure is made at the time of sale in accordance with AS 29 – ‘Provisions, contingent liabilities and contingent assets’.

Gains on securitisations, being the excess of the consideration received over book value of the assets and provisions towards expected costs including servicing costs and expected delinquencies are amortised over the life of the securities issued by the SPV. Losses are recognised immediately.

Gain arising out of sale of loans through direct assignment is amortised over the life of underlying loans sold and loss arising is recorded immediately in the Profit and Loss account.

Sales and transfers that do not meet the criteria for surrender of control are accounted for as secured borrowings.

Securities issued by securitisation vehicles where the Bank is an investor are treated as AFS instrument and accounted in line with accounting policy under 4.1 (c).

4.6 Income recognition

Interest income is recognised in the profit and loss account on an accrual basis, except in the case of interest on non-performing assets and unless otherwise specified by RBI guidelines.

Given the uncertainty ascribed to non-performing assets, income thereon is only recognised in the profit and loss account on a receipt basis in accordance with RBI guidelines.

Fee and commission income are recognised on an accrual basis. Commission on guarantees and letters of credit are recognised over the life of the instrument.

Dividends on equity shares are recognised as income when the right to receive dividends is established.

4.7 Employee benefits

The accounting policy followed by the Bank in respect of its Employee Benefit Schemes is set out below:

(a) Provident fund

The Bank contributes to recognised provident fund, which is a defined contribution scheme. The contributions are accounted for on an accrual basis and recognised in the profit and loss account.

(b) Gratuity

The Bank provides for gratuity liability, which is a defined benefit scheme, based on an actuarial valuation using the projected unit credit method at the balance sheet date carried out by an independent qualified actuary.

Actuarial gains/losses for the gratuity liability are recognised in the profit and loss account.

(c) Pension

The Bank has an active pension scheme for award staff. This is defined benefit plan for employees who joined prior to 31 March 2002 and defined contribution plan for employees joined after 31 March 2002 till December 2016. In 2004, the bank introduced new salary terms for management staff and the pension benefits have been frozen based on the salary and service on the date of conversion. In respect of employees covered under the defined benefit plan, the Bank provides for the pension liability based on an actuarial valuation using the projected unit credit method at the balance sheet date carried out by an independent qualified actuary. In respect of other employees, the contributions are accounted for on an accrual basis and recognised in the profit and loss account.

Actuarial gains/losses for the pension liability are recognised in the profit and loss account.

(d) Compensated absences

The Bank has a leave encashment scheme for its award staff which is a defined benefit plan. The Bank provides for the leave encashment liability based on an actuarial valuation using the projected unit credit method at the balance sheet date carried out by an independent qualified actuary.

Actuarial gains/losses for the leave encashment liability are recognised in the profit and loss account.

4.8 Fixed assets and depreciation

Fixed assets are stated at acquisition cost less accumulated depreciation, with the exception of premises.

Premises are revalued annually and stated at revalued cost less accumulated depreciation. The revaluation of premises is done in line with RBI guidelines. The surplus arising on revaluation is credited to revaluation reserve account except to the extent such increase is related to and not greater than a decrease arising on revaluation previously recorded as a charge to the profit and loss account, wherein it is credited to profit and loss account. Deficit arising on revaluation is charged to the profit and loss account except to the extent such decrease is related to an increase previously recorded as a credit to revaluation reserve which has not been subsequently reversed or utilised, wherein it is charged directly to revaluation reserve account. On disposal of revalued premises, the amount standing to the credit of revaluation reserve is transferred to Capital Reserve in accordance with the RBI guidelines. Profit on disposal of premises is recognised in the Profit and Loss Account and subsequently appropriated to Capital Reserve. Losses are recognised in the Profit and Loss Account.

Schedules forming part of the Financial Statements for the year ended 31 March 2020 (*Continued)*
(Currency: Indian rupees)

Schedule 18 – Significant accounting policies and notes to accounts *(Continued)*

4 Significant accounting policies *(Continued)*

4.8 Fixed assets and depreciation (Continued)

Fixed assets individually costing less than Rs. 25,000 are expensed in the year of purchase. Depreciation is provided on a straight line basis over the estimated useful life of the asset. The useful life estimates prescribed in Part C of Schedule II to the Companies Act, 2013 are generally adhered to, except in respect of few asset classes where, based on management evaluation and past experience, a different estimate of useful life is considered suitable. The rates applied by the Bank on different categories of fixed assets are as follows:

Category of Asset	Useful life of Assets
Freehold land	–
Premises	50 Years
Leasehold improvements	Over 5 years or remaining period of lease whichever is lower
Computers	3 Years
ATM	7 Years
Improvements at owned premises	5 - 10 Years
Other fixed assets	5 Years

Freehold land is not depreciated as it has an indefinite economic life.

The Bank assesses at each balance sheet date whether there is any indication that an asset may be impaired and provides for impairment loss, if any, in the profit and loss account.

4.9 Accounting for leases

Assets taken on lease are accounted for in accordance with provisions of AS 19-'Leases'. Lease payments under operating leases are recognised as an expense in the profit and loss account on a straight line basis over the lease term.

4.10 Taxes on income

"Taxation charge" comprises current tax provision and net change in deferred tax asset and liability during the year.

Current tax provision represents the estimated income-tax liability determined in accordance with the provisions of the Income Tax Act, 1961 and the rules framed thereunder.

The Bank accounts for deferred taxes in accordance with the provisions of AS 22 "Accounting for Taxes on Income". Deferred tax is provided on timing differences between the accounting and tax treatment of income and expenditure. Deferred tax assets are recognised only if there is reasonable certainty that they will be realised in the future. However, where there are unabsorbed depreciation or carry forward losses, deferred tax assets are recognised only if it is virtually certain that these assets will be realized supported by convincing evidence. Deferred tax assets are reviewed for appropriateness of their carrying value at each balance sheet date. Deferred tax liabilities are generally recognised for all taxable timing differences. Deferred tax assets and liabilities are measured using the tax rates that have been enacted or substantively enacted by the balance sheet date.

4.11 Provision for reward points on credit cards

The Bank has a policy of awarding reward points for credit card spends by customers. Provision for credit card reward points is made on the basis of behavioral analysis of utilisation trends.

4.12 Provisions, contingent liabilities and contingent assets

The Bank creates a provision when there is a present obligation as a result of a past event that probably requires an outflow of resources and a reliable estimate can be made of the amount of the obligation. In cases where available information indicates that the loss on the contingency is reasonably possible but the amount of loss cannot be reliably estimated, a disclosure to this effect is made in the financial statements. When there is a possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources would be required to settle the obligation, the provision is reversed.

Contingent assets are not recognised in the financial statements. However, contingent assets are assessed continually and if it is virtually certain that an inflow of economic benefits will arise, the asset and related income are recognised in the period in which the change occurs.

4.13 Priority Sector Lending Certificates

The Bank enters into transactions for the sale or purchase of Priority Sector Lending Certificates (PSLCs). In the case of a sale transaction, the Bank sells the fulfilment of priority sector obligation and in the case of a purchase transaction the Bank buys the fulfilment of priority sector obligation through the RBI trading platform. There is no transfer of risks or loan assets. The fee received from the sale of PSLCs is recorded as other income in schedule 14 (V) and the fee paid for purchase of the PSLCs is recorded as expense in schedule 16 (XI) in Profit and Loss Account. These are amortised over the period of the certificate.

5 Notes to accounts

5.1 Capitalisation of profit

In accordance with Head Office approval and in line with the RBI requirements in this regard, the Bank has appropriated Rs. Nil of accumulated profits to Remittable Surplus retained in India for Capital to Risk-weighted Assets Ratio (CRAR) requirements (previous year: Rs. 6,029 million).

5.2 Fixed assets

During the year, the Bank revalued its properties in accordance with the applicable RBI guidelines. For property valued above Rs. 500 million the valuation was obtained from two independent valuers. The Bank revalued its owned freehold premises upward by Rs. 12 million (previous year: upward by Rs. 191 million) based on an independent professional valuation.

Certain premises valued at Rs.5,503 million (previous year: Rs. 5,653 million) acquired under a Scheme of Arrangement are held in the name of HSBC Agency (India) Private Limited, a wholly owned subsidiary, for the benefit of the Bank. Accordingly, these premises have been treated as assets of the Bank.

The Hongkong and Shanghai Banking Corporation Limited – India Branches
(Incorporated in Hong Kong SAR with limited liability)

Schedules forming part of the Financial Statements for the year ended 31 March 2020 *(Continued)*

(Currency: Indian rupees)

Schedule 18 – Significant accounting policies and notes to accounts *(Continued)*

5 Notes to accounts *(Continued)*

5.3 Taxation

Contingent liability of the Bank in respect of taxation for pending litigation for all the years where tax assessment has been completed (i.e. upto assessment year 2016-17) amounts to Rs. 3,150 million (previous year: Rs. 970 million upto the assessment year 2015-16). This is awaiting final outcome of the appeals filed by the Bank/Revenue authorities. Management considers that adequate provision has been made for tax liabilities relating to above assessment years.

5.4 Specific Reserve

This Reserve is created and maintained in accordance with the provisions of Section 36(1)(viii) of the Income-tax Act, 1961 and is tax deductible subject to limits prescribed therein. Any amounts subsequently withdrawn there from, if at all, is liable to income tax in the year in which withdrawn.

5.5 Investment Fluctuation Reserve

As prescribed in the RBI circular dated 2 April 2018, the Bank has transferred an amount of Rs. 7,376 million during the year to Investment Fluctuation Reserve (previous year: Rs. 4,800 million).

The Bank did not avail the option given vide RBI circular dated 15 June 2018 and 2 April 2018 to spread provisioning for mark to market (MTM) losses on investments held in AFS and HFT for the quarters ended 30 June 2018, 31 March 2018 and 31 December 2017 over upto four quarters commencing with the quarter in which the loss is incurred.

5.6 Statutory disclosures

(a) Capital adequacy ratio

The capital adequacy ratio of the Bank, calculated as per RBI guidelines is set out below:

(Rs '000)

Particulars	**As at 31 March 2020**	As at 31 March 2019
Tier 1 capital	**206,564,793**	200,891,201
Tier 2 capital	**24,860,603**	12,070,726
Total capital	**231,425,396**	212,961,927
Total risk weighted assets	**1,436,526,519**	1,190,340,501
Common Equity Tier 1 Capital Ratio (%)	**14.38%**	16.88%
Tier I Capital Ratio (%)	**14.38%**	16.88%
Tier II capital Ratio (%)	**1.73%**	1.01%
Total Capital Ratio (CRAR)	**16.11%**	17.89%
Amount of subordinated debt raised as Tier II capital (see note 5.6–(am))	**–**	–

The Bank has not raised any additional Tier I and Tier II capital during the years ended 31 March, 2020 and 31 March, 2019. Capital adequacy for the current year has been calculated based on the Guidelines in Master Circular – Basel III Capital Regulations, issued vide circular DBR .No. BP.BC.1/21.06.201 /2015-16 dated 1 July 2015.

(b) Business ratios/ information

The details relating to business ratios are given below:

	For the year ended 31 March 2020	For the year ended 31 March 2019
Interest income as percentage to working funds	**6.75%**	6.49%
Non-interest income as percentage to working funds	**1.25%**	1.28%
Operating profits as percentage to working funds	**3.29%**	2.93%
Return on assets	**1.61%**	1.67%
Business (deposits plus advances) per employee (Rs '000)	**506,120**	427,210
Profit per employee (Rs '000)	**7,158**	6,535

The figures have been computed in accordance with RBI guidelines vide master circular DBR.BP.BC No.23/21.04.018/2015-16 dated 1 July 2015. Working funds represent average of total assets as reported to RBI in Form X. Return on assets is also based on average of total assets as reported to RBI in Form X.

(c) Provisions and Contingencies

(Rs '000)

Break up of provisions and contingencies shown under the head expenditure in Profit & Loss account	**For the year ended 31 March 2020**	For the year ended 31 March 2019
Release of depreciation on Investments	**(413,388)**	(576,736)
Provision/(release) towards NPA (including write-offs net of recoveries)	**1,603,305**	(114,139)
Provision towards standard assets	**3,762,395**	42,212
Provision/(release) towards country risk provision	**34,160**	(5,250)
Provision towards current tax expense	**24,710,010**	18,654,322
(Release)/charge towards deferred tax	**(881,263)**	1,135,610
Other Provisions and Contingencies (refer to note 5.13):		
Provision towards reward points	**174,928**	250,559
Provision towards claims under litigation	**530**	15,513
(Release)/provision of overdue income	**(118,968)**	38,150
Others	**28,185**	26,848
Total	**28,899,894**	19,467,089

Schedules forming part of the Financial Statements for the year ended 31 March 2020 *(Continued)*
(Currency: Indian rupees)

Schedule 18 – Significant accounting policies and notes to accounts *(Continued)*

5 Notes to accounts *(Continued)*

5.6 Statutory disclosures (Continued)

(d) Investments

(Rs '000)

				As at 31 March 2020	As at 31 March 2019
(1)	**Value of investments**				
	(i)	Gross value of investments		**716,292,090**	710,222,969
		(a)	In India	**716,292,090**	710,222,969
		(b)	Outside India	**–**	–
	(ii)	Provision for depreciation		**(71,960)**	(485,348)
		(a)	In India	**(71,960)**	(485,348)
		(b)	Outside India	**–**	–
	(iii)	Net value of investments		**716,220,130**	709,737,621
		(a)	In India	**716,220,130**	709,737,621
		(b)	Outside India	**–**	–

The Bank has no sale and transfer to/from HTM category during the year (previous year: Rs. Nil). Investments include government securities representing face value of Rs. 252,424 million (previous year: Rs. 347,589 million) deposited for settlement guarantee fund and collateralised borrowing and lending obligation (CBLO) with Clearing Corporation of India Limited (CCIL); and for repo transaction, liquidity adjustment facility (LAF) and to meet the requirement of section 11 (2) (b) of the Banking Regulation Act, 1949 with RBI.

(Rs '000)

			As at 31 March 2020	As at 31 March 2019
(2)	**Movement of provisions held towards depreciation on investments**			
	(i)	Opening balance	**485,348**	1,062,084
	(ii)	Add : Provision made during the year	**–**	–
	(iii)	Less : Write back of excess provision during the year	**(413,388)**	(576,736)
	(iv)	**Closing balance**	**71,960**	485,348

The outstanding commitments relating to securities purchase and sale contracts as at 31 March 2020 are Rs. 17,957 million (previous year: Rs. 23,362 million) and Rs. 26,963 million (previous year: Rs. 27,061 million) respectively.

(e) Issuer-wise composition of non-SLR investments

(Rs '000)

As at 31 March 2020						
No.	**Issuer**	**Amount**	**Extent of Private Placement ***	**Extent of 'Below Investment Grade' Securities**	**Extent of 'Unrated' Securities**	**Extent of 'Unlisted' Securities****
(1)	(2)	**(3)**	**(4) #**	**(5) #**	**(6) #**	**(7) #**
(i)	Public Sector Undertakings	**27,360,155**	**4,167,436**	**–**	**1,000**	**1,000**
(ii)	Financial Institutions	**–**	**–**	**–**	**–**	**–**
(iii)	Banks	**–**	**–**	**–**	**–**	**–**
(iv)	Private Corporate	**107,451,744**	**93,027,235**	**–**	**135,100**	**135,100**
(v)	Subsidiaries/Joint Ventures	**500**	**500**	**–**	**500**	**500**
(vi)	Others	**–**	**–**	**–**	**–**	**–**
(vii)	Provision held towards depreciation	**(71,960)**	**–**	**–**	**–**	**–**
	Total	**134,740,439**	**97,195,171**	**–**	**136,600**	**136,600**

(Rs '000)

As at 31 March 2019						
No.	Issuer	Amount	Extent of Private Placement *	Extent of 'Below Investment Grade' Securities	Extent of 'Unrated' Securities	Extent of 'Unlisted' Securities**
(1)	(2)	(3)	(4) #	(5) #	(6) #	(7) #
(i)	Public Sector Undertakings	44,795,375	4,515,468	–	1,000	1,000
(ii)	Financial Institutions	–	–	–	–	–
(iii)	Banks	–	–	–	–	–
(iv)	Private Corporate	117,328,608	96,650,782	–	135,100	135,100
(v)	Subsidiaries/Joint Ventures	500	500	–	500	500
(vi)	Others	–	–	–	–	–
(vii)	Provision held towards depreciation	(485,348)	–	–	–	–
Total		161,639,135	101,166,750	–	136,600	136,600

Note: Total investments include net investments in PTC of Rs. 88,177 million (previous year: Rs. 85,703 million)
* The classification is based on the actual issue and not on the basis of secondary market purchases.
\# Amounts reported under columns (4), (5), (6) and (7) above are not mutually exclusive.
** Excludes PTCs in line with extant RBI guidelines.

Schedules forming part of the Financial Statements for the year ended 31 March 2020 (*Continued*)

(Currency: Indian rupees)

Schedule 18 – Significant accounting policies and notes to accounts *(Continued)*

5 Notes to accounts *(Continued)*

5.6 Statutory disclosures (Continued)

(f) Non-performing non SLR investments

The non-performing investments as at 31 March 2020 are Rs. 2 (previous year: Rs. 2). This represents preference share/equity share investments which have been written down to Rs. 2.

(g) Details of Investment in security receipts backed by NPAs

The Bank has no such Investments (previous year: Rs. Nil).

(h) Repo transactions (in face value terms)

(Rs '000)

	Minimum Outstanding During the Year 2019-20	Maximum Outstanding During the Year 2019-20	Daily Average Outstanding During the Year 2019-20	Outstanding as at 31 March 2020
Securities sold under repos				
i. Government securities	**8,831,100**	**269,564,110**	**133,725,165**	**134,018,330**
ii. Corporate debt securities	**4,000,000**	**4,000,000**	**76,503**	**–**
Securities purchased under reverse repos				
i. Government securities	**480,800**	**315,198,610**	**36,170,987**	**126,156,690**
ii. Corporate debt securities	**2,500,000**	**11,850,000**	**7,762,705**	**6,000,000**

(Rs '000)

	Minimum Outstanding During the Year 2018-19	Maximum Outstanding During the Year 2018-19	Daily Average Outstanding During the Year 2018-19	Outstanding as at 31 March 2019
Securities sold under repos				
i. Government securities	340,400	269,564,110	78,208,904	269,564,110
ii. Corporate debt securities	1,500,000	2,750,000	81,507	–
Securities purchased under reverse repos				
i. Government securities	910,000	109,608,880	19,437,192	28,876,940
ii. Corporate debt securities	500,000	9,600,000	5,180,685	9,600,000

Notes:

1. The above figures also include liquidity adjustment facility/repo transactions undertaken with the RBI.
2. Minimum outstanding during the year excludes days with Nil outstanding.

(i) Movement of Gross NPAs

(Rs '000)

	For the year ended 31 March 2020	For the year ended 31 March 2019
Gross NPAs as on 1st April	**5,977,082**	9,242,663
Additions# (fresh NPAs during the year)	**4,694,120**	3,914,319
Sub-total (A)	**10,671,202**	13,156,982
Less:		
(i) Upgrades	**(2,163,844)**	(1,998,827)
(ii) Recoveries#		
(excluding recoveries made from upgraded accounts)	**(629,116)**	(1,589,044)
(iii) Write-offs	**(1,184,976)**	(3,592,029)
Sub-total (B)	**(3,977,936)**	(7,179,900)
Gross NPAs as on 31st March (A-B)	**6,693,266**	5,977,082

Includes movement due to exchange fluctuation

(j) Movements in NPAs

(Rs '000)

	For the year ended 31 March 2020			For the year ended 31 March 2019		
	Gross NPA	**Provision**	**Net NPA**	Gross NPA	Provision	Net NPA
(a) Opening Balance	**5,977,082**	**4,685,912**	**1,291,170**	9,242,663	7,802,562	1,440,101
(b) Additions during the period#	**4,694,120**	**2,292,990**	**2,401,130**	3,914,319	1,394,098	2,520,221
(c) Reductions during the period#	**(3,977,936)**	**(1,547,556)**	**(2,430,380)**	(7,179,900)	(4,510,748)	(2,669,152)
(d) Closing Balance	**6,693,266**	**5,431,346**	**1,261,920**	5,977,082	4,685,912	1,291,170

Includes movement due to exchange fluctuation

Provision includes specific provisions on non-homogeneous loans and provisions created on portfolio basis using the historical loss and/or net flow method for homogeneous loans relating to retail business.

Schedules forming part of the Financial Statements for the year ended 31 March 2020 *(Continued)*

(Currency: Indian rupees)

Schedule 18 – Significant accounting policies and notes to accounts ***(Continued)***

5 Notes to accounts ***(Continued)***

5.6 Statutory disclosures (Continued)

(k) Non-Performing Advances (NPA)

The percentage of net NPA to net advances is 0.16% as at 31 March 2020 (previous year: 0.19%).

(l) Floating Provision

The Bank does not have a policy of making floating provisions.

(m) Provision coverage ratio

The provision coverage ratio (ratio of provision to gross non-performing assets) computed in accordance with RBI circular no DBOD.No.BP.BC.64 /21.04.048/2009-10 dated 1 December 2009 is 81.15% as at 31 March 2020 (previous year: 78.40%).

(n) Concentration of Advances

(Rs '000)

	As at 31 March 2020	As at 31 March 2019
Total Advances of twenty largest borrowers	**372,108,194**	372,064,246
Percentage of Advances of twenty largest borrowers to Total Advances of the bank	**13.64%**	13.84%

(o) Concentration of Exposures

(Rs '000)

	As at 31 March 2020	As at 31 March 2019
Total Exposure to twenty largest borrowers/customers	**388,824,122**	391,528,897
Percentage of Exposures of twenty largest borrowers/customers to Total Exposure of the bank on borrowers/customers	**13.58%**	13.75%

(p) Concentration of NPAs

Total exposure to top four NPA accounts is Rs. 1,750 million (previous year: Rs. 1,217 million). The exposure is computed on a gross basis.

(q) Unsecured Advances

The Bank does not have any advances secured by intangible assets.

(r) Sector-wise Advances

(Rs '000)

Sl. No.	**Sector**	**As at 31 March 2020** Outstanding Total Advances	**As at 31 March 2020** Gross NPAs	**As at 31 March 2020** Percentage of Gross NPAs to Total Advances in that sector	As at 31 March 2019 Outstanding Total Advances	As at 31 March 2019 Gross NPAs	As at 31 March 2019 Percentage of Gross NPAs to Total Advances in that sector
A	Priority Sector						
1	Agriculture and allied activities	**32,172,123**	**816,158**	**2.54**	29,686,882	–	–
2	Advances to industries sector eligible as priority sector lending	**24,245,656**	**–**	**–**	17,993,004	–	–
	2.1 Chemicals and Chemical Products	**3,133,574**	**–**	**–**	1,418,688	–	–
	2.2 Basic Metal and Metal Products	**4,112,713**	**–**	**–**	3,214,854	–	–
	2.3 Textiles	**2,628,051**	**–**	**–**	966,524	–	–
	2.4 Rubber, Plastic and their Products	**3,001,858**	**–**	**–**	890,620	–	–
	2.5 Infrastructure	**12,048**	**–**	**–**	6,298,893	–	–
3	Services	**50,920,412**	**449,490**	**0.88**	28,036,926	383,588	1.37
	3.1 Professional Services	**14,786,207**	**–**	**–**	1,816,228	–	–
	3.2 Trade	**25,176,811**	**102,012**	**0.41**	17,499,807	58,417	0.33
	3.3 NBFC	**9,221,280**	**89,035**	**0.97**	6,375,772	68,796	1.08
4	Personal loans	**22,415**	**–**	**–**	1,643,600	347,470	21.14
	4.1 Housing	**22,415**	**–**	**–**	1,643,600	347,470	21.14
	Sub-total (A)	**107,360,606**	**1,265,648**	**1.18**	77,360,412	731,058	0.95

Schedules forming part of the Financial Statements for the year ended 31 March 2020 (*Continued)*
(Currency: Indian rupees)

Schedule 18 – Significant accounting policies and notes to accounts *(Continued)*

5 Notes to accounts *(Continued)*

5.6 Statutory disclosures (Continued)

(r) Sector-wise Advances (Continued)

(Rs '000)

Sl. No.	Sector	As at 31 March 2020 Outstanding Total Advances	As at 31 March 2020 Gross NPAs	As at 31 March 2020 Percentage of Gross NPAs to Total Advances in that sector	As at 31 March 2019 Outstanding Total Advances	As at 31 March 2019 Gross NPAs	As at 31 March 2019 Percentage of Gross NPAs to Total Advances in that sector
B	Non Priority Sector						
1	Agriculture and allied activities	**6,168,215**	**55,497**	**0.90**	3,525,347	–	–
	1.1 Indirect Agriculture	**6,168,215**	**55,497**	**0.90**	3,525,347	–	–
2	Industry	**225,697,700**	**1,206,051**	**0.53**	242,997,287	1,452,583	0.60
	2.1 Chemicals and Chemical Products	**42,202,866**	**141,249**	**0.33**	51,178,767	140,578	0.27
	2.2 All Engineering	**49,069,577**	**34,887**	**0.07**	57,585,343	104,916	0.18
	2.3 Infrastructure	**40,258,485**	**433,946**	**1.08**	36,294,574	601,057	1.66
	2.4 Vehicles, Vehicle Parts and Transport Equipments	**26,348,059**	**–**	**–**	26,567,098	–	–
3	Services	**323,030,242**	**1,289,552**	**0.40**	246,178,267	1,328,643	0.54
	3.1 Trade	**26,687,651**	**953,905**	**3.57**	31,861,802	1,043,425	3.27
	3.2 Commercial Real Estate	**119,210,094**	**324,671**	**0.27**	99,445,773	266,080	0.27
	3.3 NBFC	**56,362,087**	**–**	**–**	60,289,206	–	–
	3.4 Professional services	**45,288,987**	**10,976**	**0.02**	31,982,527	19,077	0.06
	3.5 Banks	**35,014,704**	**–**	**–**	–	–	–
4	Personal loans	**108,981,239**	**2,876,518**	**2.64**	103,670,904	2,464,798	2.38
	4.1 Housing	**76,727,377**	**2,072,243**	**2.70**	74,636,926	1,805,946	2.42
	4.2 Credit Card Receivables	**16,994,516**	**594,713**	**3.50**	16,101,259	470,797	2.92
	4.3 Other Retail Loans	**14,433,999**	**192,638**	**1.33**	11,872,865	176,473	1.49
	Sub-total (B)	**663,877,396**	**5,427,618**	**0.82**	596,371,805	5,246,024	0.88
	Total(A+B)	**771,238,002**	**6,693,266**	**0.87**	673,732,217	5,977,082	0.89

Note: Classification into sectors as above has been done based on the Bank's internal norms.

(s) Provision towards Standard Assets

(Rs '000)

	As at 31 March 2020	As at 31 March 2019
Provision towards standard assets*	**8,212,422**	4,450,027
Provision towards country risk (Refer note 5.6 (ad))	**107,848**	73,688
Accumulated surplus arising on sale of NPA	**251,454**	251,454
Total	**8,571,724**	4,775,169

* Comprises general provision towards standard assets. (including additional standard assets provision for stressed sectors as per RBI circular RBI/2016-17/282 DBR.No.BP.BC.64/21.04.048/2016-17 dated 18 April 2017), Unhedged Foreign Currency Exposure (UFCE) as per RBI Master Circular DBR No. BP.BC 2/21.04.048/2015-16 dated 1 July 2015 and COVID 19 provisions as per RBI circular RBI/2019-20/220 DOR.No.BP.BC.63/21.04.048/2019-20 dated 17 April 2020.

(t) Unhedged Foreign Currency Exposure (UFCE)

The Bank has an approved policy and rigorous process for managing the currency induced credit risk of its customers. The Bank assesses the credit risk arising out of foreign currency exposures of customers, including unhedged foreign currency exposure (UFCE), at the time of sanctioning and subsequent review of credit facilities, along with the customer's strategy for risk mitigation. The Bank also factors in the inherent risk of UFCE in credit risk rating and credit risk premium. The foreign currency exposures and UFCE are analysed on a regular basis and adequate provisioning and risk weights are maintained as required by RBI guidelines. The Bank advises its customers to ensure adequate and appropriate hedging/other risk mitigation strategies.

The Bank has to maintain incremental provisions and RWAs for UFCE of its customers as stipulated by the RBI circular 'Capital and Provisioning Requirements for Exposures to entities with Unhedged Foreign Currency Exposure' dated 15 January 2014. The Bank obtains quarterly information on UFCE from its customers and the incremental provision is computed based on relative riskiness of a customer in terms of likely loss due to forex volatility as a % of EBID (defined as PAT + Depreciation + Interest on debt + Lease Rentals). The incremental provisioning required is Rs. 923 million and the additional capital required is Rs. 5,896 million for UFCE as at 31 March 2020. (previous year: Rs. 892 million provision and capital required Rs. 4,909 million).

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Schedules forming part of the Financial Statements for the year ended 31 March 2020 *(Continued)*
(Currency: Indian rupees)

Schedule 18 – Significant accounting policies and notes to accounts *(Continued)*

5 Notes to accounts *(Continued)*

5.6 Statutory disclosures (Continued)

(u) Details of financial assets sold to Securitisation Companies (SC)/Reconstruction Companies (RC) for Asset Reconstruction

(Rs '000)

	For year ended 31 March 2020	For year ended 31 March 2019
Number of accounts	–	1
Aggregate value (net of provisions) of accounts sold to SC/RC	–	–
Aggregate consideration	–	748,959
Additional consideration realised in respect of accounts transferred in earlier years	–	–
Aggregate gain over net book value	–	748,959

(v) Details of non-performing financial assets purchased/sold

There has been no purchase of NPAs during the year ended 31 March 2020 (previous year: Rs. Nil).

There has been no sale of NPAs during the year ended 31 March 2020. Details of NPAs sold during the year ended 31 March 2019 are provided in Schedule 18 note 5.6 (u).

(w) Securitisation of standard assets (including Direct Assignment)

The Bank has not securitised any standard assets in the current year (previous year: Rs. Nil).

The following disclosures are made in accordance with RBI circular dated 7 May 2012, with respect to transfer of assets through direct assignment of cash flows.

(Rs '000)

	As at 31 March 2020	As at 31 March 2019
Total amount of assets through Direct Assignment of Cash Flows	**179,900**	–
Total amount of On Balance Sheet exposures retained by the bank to comply with MRR as on the date of Balance Sheet	**19,989**	–

(x) PSLCs purchased and sold

(Rs '000)

	As at 31 March 2020	**As at 31 March 2020**	As at 31 March 2019	As at 31 March 2019
	Purchased	**Sold**	Purchased	Sold
Agriculture	**51,840,000**	–	19,765,000	–
Small Farmer/Marginal Farmer	**80,545,000**	–	62,930,000	–
Micro Enterprises	**35,200,000**	–	21,950,000	–
General	**54,500,000**	–	5,000,000	7,000,000
Total	**222,085,000**	–	109,645,000	7,000,000

(y) Disclosure on technical write-offs and recoveries made thereon

There have been Nil technical write-offs and recoveries during the year. (previous year: Rs. Nil)

(z) Disclosure on divergence in the asset classification and provisioning

The divergence observed by RBI for the financial year 2018-19 and 2017-18 in respect of the Bank's asset classification and provisioning under the extant prudential norms on income recognition asset classification and provisioning, are below the thresholds prescribed in RBI circular DBR.BP.BC.No.32/21.04.018/2018-19 dated 01 April 2019, which require such disclosures.

(aa) Disclosure on implementation of Resolution Plan/Schemes for Stressed Assets

Bank has not implemented any Resolution Plan during the financial year 2019-20 as per the Prudential Framework for Resolution of Stressed Assets laid down by RBI vide its circular RBI/2018-19/203 DBR.No.BP.BC.45/21.04.048/2018-19 dated June 7, 2019. Further during financial year 2018-19, Bank did not have any asset under the schemes for stressed assets.

Schedules forming part of the Financial Statements for the year ended 31 March 2020 *(Continued)*

(Currency: Indian rupees)

Schedule 18 – Significant accounting policies and notes to accounts ***(Continued)***

5 Notes to accounts ***(Continued)***

5.6 Statutory disclosures (Continued)

(ab) Exposures:

Exposure to real estate sector

(Rs '000)

	Category	As at 31 March 2020	As at 31 March 2019
A	Direct exposure	**230,122,647**	233,718,847
(i)	Residential mortgages –		
	Lendings fully secured by mortgages on residential property that is or will be occupied by the borrower or that is rented *	**92,651,723**	91,713,868
	Of which individual housing loans eligible for inclusion in priority sector advances	**22,781**	1,722,532
(ii)	Commercial real estate	**134,551,584**	138,346,459
(iii)	Investments in Mortgage Backed Securities (MBS) and other securitised exposures –		
	a. Residential	**2,804,060**	3,509,440
	b. Commercial Real estate	**115,280**	149,080
B	Indirect exposure	**41,051,847**	44,166,528
	Fund based and non-funded based exposures on National Housing Bank (NHB) and Housing Finance Companies	**41,051,847**	44,166,528
	Others	**–**	–
	Total exposure to real estate sector (A+B)	**271,174,494**	277,885,375

* Includes undrawn limits of **Rs. 15,499** million (previous year: Rs. 15,040 million) pertaining to mortgages on residential property.

Exposure to capital market

(Rs '000)

		As at 31 March 2020	As at 31 March 2019
i.	direct investment in equity shares, convertible bonds, convertible debentures and units of equity-oriented mutual funds the corpus of which is not exclusively invested in corporate debt;	**136,600**	136,600
ii.	advances against shares/bonds/debentures or other securities or on clean basis to individuals for investment in shares (including IPOs/ESOPs), convertible bonds, convertible debentures, and units of equity-oriented mutual funds;	**886**	1,469
iii.	advances for any other purposes where shares or convertible bonds or convertible debentures or units of equity oriented mutual funds are taken as primary security;	**–**	–
iv.	advances for any other purposes to the extent secured by the collateral security of shares or convertible bonds or convertible debentures or units of equity oriented mutual funds i.e. where the primary security other than shares/convertible bonds/convertible debentures/units of equity oriented mutual funds does not fully cover the advances;	**821,300**	1,543,000
v.	secured and unsecured advances to stockbrokers and guarantees issued on behalf of stockbrokers and market makers;	**3,939,286**	9,029,673
vi.	loans sanctioned to corporates against the security of shares/bonds/ debentures or other securities or on clean basis for meeting promoter's contribution to the equity of new companies in anticipation of raising resources;	**–**	–
vii.	bridge loans to companies against expected equity flows/issues;	**14,255,000**	11,244,500
viii.	underwriting commitments taken up by the banks in respect of primary issue of shares or convertible bonds or convertible debentures or units of equity oriented mutual funds;	**–**	–
ix.	financing to stockbrokers for margin trading;	**–**	–
x.	all exposures to Venture Capital Funds (both registered and unregistered)	**–**	–
xi.	Others	**4,895,656**	2,528,059
	Total Exposure to Capital Market (i to xi)	**24,048,728**	24,483,301

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Schedules forming part of the Financial Statements for the year ended 31 March 2020 *(Continued)*

(Currency: Indian rupees)

Schedule 18 – Significant accounting policies and notes to accounts *(Continued)*

5 Notes to accounts ***(Continued)***

5.6 Statutory disclosures (Continued)

(ac) Restructured accounts

A) Particulars of accounts restructured

for the year ended 31 March 2020

(Rs. '000)

Sr No	Type of Restructuring	Asset Classification/Details	Under CDR Mechanism					Others					Total				
			Standard	Sub-Standard	Doubtful	Loss	Total	Standard	Sub-Standard	Doubtful	Loss	Total	Standard	Sub-Standard	Doubtful	Loss	Total
1	Restructured accounts as on April 1 of the FY (opening figures)*	No of borrowers	–	–	2	–	2	–	3	114	1	118	–	3	116	1	120
		Amount outstanding	–	–	68,795	–	68,795	–	859	6,760	54,000	61,619	–	859	75,555	54,000	130,414
		Provision thereon	–	–	89,035	–	89,035	–	367	6,769	54,100	61,236	–	367	95,805	54,100	150,271
2	Fresh Restructuring during the year	No of borrowers	–	–	–	–	–	–	1	27	–	28	–	1	27	–	28
		Amount outstanding	–	–	20,240	–	20,240	–	468	221	–	689	–	468	20,461	–	20,929
		Provision thereon	–	–	28,532	–	28,532	–	117	221	–	338	–	117	28,753	–	28,870
3	Upgradations to restructured standard category during the FY	No of borrowers	–	–	–	–	–	–	–	(78)	–	(78)	–	–	(78)	–	(78)
		Amount outstanding	–	–	–	–	–	–	–	(420)	–	(420)	–	–	(420)	–	(420)
		Provision thereon	–	–	–	–	–	–	–	(420)	–	(420)	–	–	(420)	–	(420)
4	Restructured standard advances which cease to attract higher provisioning and/or additional risk weight at the end of the FY and hence need not be shown as restructured standard advances at the beginning of the next FY	No of borrowers	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
		Amount outstanding	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
		Provision thereon	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
5	Downgradations of restructured accounts during the FY	No of borrowers	–	–	–	–	–	–	(3)	3	–	–	–	(3)	3	–	–
		Amount outstanding	–	–	–	–	–	–	(867)	762	–	(105)	–	(867)	762	–	(105)
		Provision thereon	–	–	–	–	–	–	(217)	762	–	545	–	(217)	762	–	545
6	Write-off of restructured accounts during the FY **	No of borrowers	–	–	–	–	–	–	–	(49)	–	(49)	–	–	(49)	–	(49)
		Amount outstanding	–	–	–	–	–	–	–	(2,469)	(438)	(2,907)	–	–	(2,469)	(438)	(2,907)
		Provision thereon	–	–	–	–	–	–	–	(2,469)	(538)	(3,007)	–	–	(2,469)	(538)	(3,007)
7	Restructured accounts as on March 31 of the FY (closing figures)*	No of borrowers	–	–	2	–	2	–	1	17	1	19	–	1	19	1	21
		Amount outstanding	–	–	89,035	–	89,035	–	460	4,854	53,562	58,876	–	460	93,889	53,562	147,911
		Provision thereon	–	–	117,567	–	117,567	–	267	4,863	53,562	58,692	–	267	122,430	53,562	176,259

* Excluding the figures of Standard Restructured Advances which do not attract higher provisioning or risk weight (if applicable).
** Includes recovery of restructured accounts as below.
Note : There are no restructured accounts under SME restructuring mechanism.

Recovery of restructured accounts during the FY	No of borrowers	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
	Amount outstanding	–	–	–	–	–	–	–	(1,769)	(438)	(2,207)	–	–	(1,769)	(438)	(2,207)
	Provision thereon	–	–	–	–	–	–	–	(1,769)	(538)	(2,307)	–	–	(1,769)	(538)	(2,307)

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Schedules forming part of the Financial Statements for the year ended 31 March 2020 *(Continued)*

(Currency: Indian rupees)

Schedule 18 – Significant accounting policies and notes to accounts *(Continued)*

5 Notes to accounts *(Continued)*

5.6 Statutory disclosures (Continued)

(ac) Restructured accounts (Continued)

A) Particulars of accounts restructured

for the year ended 31 March 2019
(Rs. '000)

Sr No	Type of Restructuring Asset Classification/Details		Under CDR Mechanism					Others					Total				
			Standard	Sub-Standard	Doubtful	Loss	Total	Standard	Sub-Standard	Doubtful	Loss	Total	Standard	Sub-Standard	Doubtful	Loss	Total
1	Restructured accounts as on April 1 of the FY (opening figures)*	No of borrowers	–	–	2	–	2	–	7	167	1	175	–	7	169	1	177
		Amount outstanding	–	–	120,200	–	120,200	–	2,668	3,265	54,000	59,933	–	2,668	123,465	54,000	180,133
		Provision thereon	–	–	120,200	–	120,200	–	692	3,279	54,100	58,071	–	692	123,479	54,100	178,271
2	Fresh Restructuring during the year	No of borrowers	–	–	–	–	–	–	2	43	–	45	–	2	43	–	45
		Amount outstanding	–	–	–	–	–	–	965	4,146	–	5,111	–	965	4,146	–	5,111
		Provision thereon	–	–	–	–	–	–	393	4,146	–	4,539	–	393	4,146	–	4,539
3	Upgradations to restructured standard category during the FY	No of borrowers	–	–	–	–	–	–	–	(84)	–	(84)	–	–	(84)	–	(84)
		Amount outstanding	–	–	–	–	–	–	–	(304)	–	(304)	–	–	(304)	–	(304)
		Provision thereon	–	–	–	–	–	–	–	(304)	–	(304)	–	–	(304)	–	(304)
4	Restructured standard advances which cease to attract higher provisioning and/or additional risk weight at the end of the FY and hence need not be shown as restructured standard advances at the beginning of the next FY	No of borrowers	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
		Amount outstanding	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
		Provision thereon	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
5	Downgradations of restructured accounts during the FY	No of borrowers	–	–	–	–	–	–	(4)	–	–	(4)	–	(4)	–	–	(4)
		Amount outstanding	–	–	–	–	–	–	(2,329)	–	–	(2,329)	–	(2,329)	–	–	(2,329)
		Provision thereon	–	–	–	–	–	–	(582)	–	–	(582)	–	(582)	–	–	(582)
6	Write-off of restructured accounts during the FY **	No of borrowers	–	–	(2)	–	(2)	–	(2)	(12)	–	(14)	–	(2)	(14)	–	(16)
		Amount outstanding	–	–	(51,405)	–	(51,405)	–	(445)	(347)	–	(792)	–	(445)	(51,752)	–	(52,197)
		Provision thereon	–	–	(31,165)	–	(31,165)	–	(136)	(351)	–	(487)	–	(136)	(31,516)	–	(31,652)
7	Restructured accounts as on March 31 of the FY (closing figures)*	No of borrowers	–	–	2	–	2	–	3	114	1	118	–	3	116	1	120
		Amount outstanding	–	–	68,795	–	68,795	–	859	6,760	54,000	61,619	–	859	75,555	54,000	130,414
		Provision thereon	–	–	89,035	–	89,035	–	367	6,770	54,100	61,237	–	367	95,805	54,100	150,272

* Excluding the figures of Standard Restructured Advances which do not attract higher provisioning or risk weight (if applicable).
** Includes recovery of restructured accounts as below.
Note : There are no restructured accounts under SME restructuring mechanism.

Recovery of restructured accounts during the FY	No of borrowers	–	–	(2)	–	(2)	–	–	–	–	–	–	–	(2)	–	(2)
	Amount outstanding#	–	–	(51,405)	–	(51,405)	–	–	–	–	–	–	–	(51,405)	–	(51,405)
	Provision thereon	–	–	(31,165)	–	(31,165)	–	–	–	–	–	–	–	(31,165)	–	(31,165)

Preference shares received as part repayment in lieu of term loans outstanding as on 31st March 2019 under the CDR mechanism.

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Schedule 18 – Significant accounting policies and notes to accounts *(Continued)*

5 Notes to accounts *(Continued)*

5.6 Statutory disclosures (Continued)

(ad) Risk category wise Country Exposure

Provision for country risk exposure in line with RBI guidelines is as follows:

(Rs '000)

Classification	Exposure as at 31 March 2020*	Provision held as at 31 March 2020	Exposure as at 31 March 2019*	Provision held as at 31 March 2019
Insignificant	**226,059,166**	**107,848**	254,890,127	73,688
Low Risk	**11,572,278**	**–**	10,384,125	–
Moderately Low Risk	**168,721**	**–**	1,425,900	–
Moderate Risk	**2,191,076**	**–**	533,808	–
Moderately High Risk	**10,067**	**–**	11,647	–
High Risk	**10,037**	**–**	–	–
Very High Risk	**–**	**–**	–	–
Total	**240,011,345**	**107,848**	267,245,607	73,688

The above provision has been classified as 'Standard Asset provision' in Schedule 5.

* Exposures are computed on gross basis

(ae) Disclosure on Large Exposure Framework

The RBI has prescribed exposure limits for banks in respect of their lending to single counterparty/group of connected counterparties in form of Large Exposure Framework (LEF). The exposure limits prescribed are 20% of the bank's available eligible capital base at all times in case of single counterparty (SCL) and 25% of the bank's available eligible capital base at all times in case of group of connected counterparties (GCL). SCL can also be increased by a further 5% of the bank's available eligible capital base in exceptional cases as per the board approved policy of the Bank.

Further, Large Exposure Framework clarifies that the interbank exposure limit of an Indian branch of a foreign G-SIB with its Head Office will be 20% of its Tier I capital in India.

During the year, there was one instance where the Bank exceeded the prescribed exposure limit for which the bank immediately took action to remediate the breach by reducing its exposure on the following day.

Apart from the one mentioned above, during the year, there was no breach of LEF limits for any of the exposures.

(af) Intra-group exposure

(Rs '000)

	As at 31 March 2020	As at 31 March 2019
Total amount of intra-group exposures	**34,825,926**	33,764,834
Total amount of top-20 intra-group exposures	**34,585,867**	33,295,095
Percentage of intra-group exposures to total exposure of the bank on borrowers/customers	**1.21%**	1.19%
Details of break of limits on intra group exposures and regulatory action theron, if any	**Nil**	Nil

(ag) Concentration of Deposits

(Rs '000)

	As at 31 March 2020	As at 31 March 2019
Total Deposits of twenty largest depositors	**289,550,832**	207,726,247
Percentage of Deposits of twenty largest depositors to Total Deposits of the bank	**23.18%**	20.24%

(ah) Deposit Education and Awareness Fund (DEAF)

(Rs '000)

	As at 31 March 2020	As at 31 March 2019
Opening balance of amounts transferred to DEAF	**1,345,282**	1,120,522
Add: Amounts transferred to DEAF during the year	**217,904**	248,190
Less: Amounts reimbursed by DEAF towards claims	**(17,488)**	(23,430)
Closing balance of amounts transferred to DEAF	**1,545,698**	1,345,282

(ai) Off-Balance Sheet SPVs

The Bank has not sponsored any off-balance sheet SPVs (previous year: Rs. Nil).

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Schedules forming part of the Financial Statements for the year ended 31 March 2020 (*Continued)*
(Currency: Indian rupees)

Schedule 18 – Significant accounting policies and notes to accounts *(Continued)*

5 Notes to accounts *(Continued)*

5.6 Statutory disclosures (Continued)

(aj) Risk exposure in derivatives

Qualitative disclosure

Derivatives Usage, the associated risks and business purposes served

The Bank transacts derivatives for three primary purposes: to create risk management solutions for clients, to manage the portfolio risks arising from client business and to manage and hedge its own risks.

Our control of market risk in derivatives is based on a policy of restricting individual operations to trading within a list of permissible instruments authorised for the Bank, of enforcing new product approval procedures, and of restricting trading in the more complex derivative products (as permitted by regulations) only where appropriate levels of product expertise and robust control systems exist.

Derivatives (except for derivatives which are designated as effective hedging instruments) are held for trading. Within the held-for-trading classification are two types of derivatives: those used in sales and trading activities, and those used for risk management purposes but which for various reasons do not meet the qualifying criteria for hedge accounting. These activities are described more fully below.

Trading derivatives

Most of the Bank's derivative transactions relate to sales and trading activities. Sales activities include the structuring and marketing of derivative products to customers to enable them to take, transfer, modify or reduce current or expected risks. Trading activities include market-making and risk management.

Market-making entails quoting bid and offer prices to other market participants for the purpose of generating revenues based on spread and volume.

Risk management activity is undertaken to manage the risk arising from client transactions, with the principal purpose of retaining client margin.

Other derivatives classified as held for trading include ineffective hedging derivatives and the components of hedging derivatives that are excluded from assessing hedge effectiveness. These derivative portfolios are not risk managed on a trading intent basis and are treated as non-traded risk for value at risk (VaR) measurement purposes.

Hedging derivatives

The Bank uses derivatives (principally interest rate swaps) for hedging purposes in the management of its own asset and liability portfolios and structural positions. This enables the Bank to optimise the overall cost of accessing debt capital markets, and to mitigate the market risk which would otherwise arise from structural imbalances in the maturity and other profiles of its assets and liabilities.

Structure & organisation for management of risk in derivatives trading

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

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

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

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

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

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

Market Risk Limits are proposed by Local Global Markets. The Local Market Risk function reviews the market risk limits and provides its endorsement as appropriate to the Regional Market Risk Management for approval. After regional concurrence, the proposed mandates are tabled to INM EXCO for approval. Upon approval, the limits are formally delegated by the CEO to the Head of Global Markets, who in turns delegates limits to its different Front office desks. These limits are monitored daily by the Bank's Market Risk Management function through system reports and advised to senior management on an ongoing basis. Any breaches in the internal and regulatory market risk limits set as part of internal risk policy is reported to the senior management immediately and is also tabled at the RMM and EXCO for discussion.

Counterparty credit risk (CCR) arises from derivative transactions and is the risk that the counterparty to a transaction may default before completing the satisfactory settlement of the transaction. The measurement of CCR takes into account the current mark-to-market value to the Bank of a derivative contract and the expected potential change in that value over time caused by movements in market rates. CCR on contracts having a negative mark-to-market value to the Bank is restricted to the expected potential change in the value.

Schedules forming part of the Financial Statements for the year ended 31 March 2020 (*Continued)*
(Currency: Indian rupees)

Schedule 18 – Significant accounting policies and notes to accounts *(Continued)*

5 Notes to accounts *(Continued)*

5.6 Statutory disclosures (Continued)

(aj) Risk exposure in derivatives (Continued)

CCR is monitored against limits approved by authorised individuals within a framework of delegated authorities. These limits represent the peak exposure or loss to which the Bank could be subjected should the counterparty fail to perform its contractual obligations. These credit limits are set based on the Bank's credit risk assessment for the counterparty which inter alia considers the ability of the counterparty to honour its obligations in the event of crystallisation of the exposure.

The International Swaps and Derivatives Association ('ISDA') Master Agreement is our preferred agreement for documenting derivatives activity. It provides the contractual framework within which dealing activity across a full range of over-the-counter ('OTC') products is conducted, and contractually binds both parties to apply close-out netting across all outstanding transactions covered by an agreement if either party defaults or another pre-agreed termination event occurs. It is common, and our preferred practice, for the parties to execute a Credit Support Annex ('CSA') in conjunction with the ISDA Master Agreement. Under a CSA, collateral is passed between the parties to mitigate the counterparty risk inherent in outstanding positions. Despite these being a standard credit mitigant for OTC derivatives globally, market practice in this respect is still evolving in India. The Bank has executed a few CSAs and is negotiating with some more counterparties.

Hedging policy

The Bank bases its hedging decisions on an Asset and Liability Management Committee ('ALCO') approved hedging policy and the hedging activity is executed by a Balance Sheet Management team which is also responsible for the management of the banking book liquidity, funding and interest rate risks.

The Bank typically uses micro fair value hedges to manage fixed rate banking book risks as there are not many floating benchmark based risks. The Bank allows only external derivatives for hedging. It also allows partial term hedging of underlying.

At the inception of a hedging relationship, the Bank documents the relationship between the hedging instruments and the hedged items, its risk management objective and its strategy for undertaking the hedge. The Bank also requires a documented assessment, both at hedge inception and on an ongoing basis, of whether or not the hedging instruments, primarily derivatives, that are used in hedging transactions are highly effective in offsetting the changes attributable to the hedged risks in the hedged items.

Hedge effectiveness testing

To qualify for hedge accounting, the Bank requires that at the inception of the hedge and throughout its life, each hedge must be expected to be highly effective (prospective effectiveness), and demonstrate actual effectiveness (retrospective effectiveness) on an ongoing basis.

For prospective effectiveness, the hedging instrument must be expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated. For actual effectiveness to be achieved, the changes in fair value or cash flows must offset each other in the range of 80% to 125%.

The Bank treats hedging derivatives as 'Other Derivatives' in the trading book for accounting purposes.

Valuation & Provisioning of Derivatives Contracts

The accounting policy for derivative financial instruments is set out in schedule 18 note 4.4. Further, the Bank conforms to the RBI guidelines on provisioning.

All trading derivatives are recognised initially at fair value. In the normal course of business, the fair value of a financial instrument on initial recognition is the transaction price (that is, the fair value of the consideration given or received).

In certain circumstances, however, the fair value will be based on other observable current market transactions in the same instrument, without modification or repackaging, or on a valuation technique whose variables include only data from observable markets, such as interest rate yield curves, option volatilities and currency rates. When such evidence exists, the Bank recognises a trading gain or loss on inception of the financial instrument, being the difference between the transaction price and the fair value. When unobservable market data have a significant impact on the valuation of financial instruments, the entire initial difference in fair value from the transaction price as indicated by the valuation model is not recognised immediately in the income statement. Instead, it is recognised over the life of the transaction (also known as Day 1 P&L reserve) on an appropriate basis, when the inputs become observable, the transaction matures or is closed out, or when the Bank enters into an offsetting transaction.

Subsequent to initial recognition, the fair values of financial instruments measured at fair value are measured in accordance with the Bank's valuation methodologies, which are described below.

Fair values are subject to a control framework designed to ensure that they are either determined or validated by a function independent of the risk-taker.

For all financial instruments where fair values are determined by reference to externally quoted prices or observable pricing inputs to models, independent price determination or validation is utilised. In inactive markets, direct observation of a traded price may not be possible. In these circumstances, the Bank will source alternative market information to validate the financial instrument's fair value, with greater weight given to information that is considered to be more relevant and reliable.

Fair value adjustments are adopted when the Bank considers that there are additional factors that would be considered by a market participant which are not incorporated within the valuation model. The typical types of fair value adjustments carried by the Bank are bid-offer adjustments, uncertainty adjustments, credit and debit valuation adjustments (CVA and DVA), funding fair value adjustments (FFVA) and Day 1 Profit and Loss reserve. A bid-offer adjustment recognises the cost to the Bank to close out the open market risk positions in the market as valuation models typically generate mid-market values. Where uncertainty exists about a market data or quote an adjustment may be made to recognise the same. CVA adjusts the fair value of a derivative to reflect the probability of default (PD) of a counterparty to meet its obligations under a derivative contract whereas DVA adjusts the fair value of a derivative to reflect the PD of the Bank failing to meet its obligations under a derivative contract. FFVA is a portfolio valuation adjustment that seeks to recognise within fair value the present value of the expected future cost or benefit of funding the uncollateralised derivative counterparty exposure over its remaining life.

Schedules forming part of the Financial Statements for the year ended 31 March 2020 *(Continued)*
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Schedule 18 – Significant accounting policies and notes to accounts *(Continued)*

5 Notes to accounts *(Continued)*

5.6 Statutory disclosures (Continued)

(aj) Risk exposure in derivatives (Continued)

Quantitative disclosure

(Rs '000)

Sr. No.	Particular	As at 31 March 2020 Currency Derivatives	As at 31 March 2020 Interest Rate Derivatives	As at 31 March 2019 Currency Derivatives	As at 31 March 2019 Interest Rate Derivatives
1	Derivatives (Notional Principal Amount)				
	a) for hedging	–	–	–	–
	b) for trading	10,086,350,742	8,494,692,254	5,286,099,855	7,653,004,114
2	Marked-to-Market Position				
	a) Asset (+)	194,110,374	105,462,262	85,823,736	43,492,145
	b) Liability (–)	189,620,514	111,045,088	87,183,705	45,692,899
3	Credit Exposure #	315,466,048	126,675,381	171,307,947	80,380,691
4	Likely impact of one percentage point change in interest rate (100 x PV01)				
	a) on hedging derivatives	–	–	–	–
	b) on trading derivatives	911,029	4,986,138	1,409,487	1,350,432
5	Maximum and Minimum of 100 x PV01 observed during the year				
	a) on hedging				
	Maximum	–	–	–	–
	Minimum	–	–	–	–
	b) on trading				
	Maximum	1,450,192	5,895,896	1,574,955	3,603,029
	Minimum	692,109	1,211,048	727,693	940,861

\# The credit exposure is computed based on the current exposure method specified in the RBI Basel III norms.

Currency derivatives include forwards, currency options, currency swaps and currency futures.

Interest rate derivatives include Forward Rate Agreements, Interest Rate Options, Interest Rate Swaps and Interest Rate Futures.

The Bank did not have exposure to Credit Default Swap as on 31 March 2020.

(ak) Disclosure on interest rate swaps and forward rate agreements ('FRA')

(Rs '000)

		As at 31 March 2020	As at 31 March 2019
(i)	The notional principal of swap agreements	8,493,605,827	7,652,143,519
(ii)	Losses which would be incurred if counterparties failed to fulfill their obligations under the agreements	105,460,559	43,489,134
(iii)	Collateral required by the bank upon entering into swaps	–	–
(iv)	Concentration of credit risk arising from the swaps		
	– maximum single industry exposure with banks (previous year with banks)	68%	55%
(v)	The fair value of the swap book	(5,582,826)	(2,200,754)

The nature and terms of interest rate swaps outstanding are set out below:

(Rs '000)

Nature	Terms	As at 31 March 2020 No.	As at 31 March 2020 Notional principal	As at 31 March 2019 No.	As at 31 March 2019 Notional principal
Trading swaps	Receive floating pay floating	26	54,932,790	27	48,408,500
Trading swaps	Receive floating pay fixed	6,098	4,282,621,071	5,750	3,805,911,352
Trading swaps	Receive fixed pay floating	6,458	4,119,256,737	5,654	3,790,672,945
Trading swaps	Receive fixed pay fixed	4	9,433,080	3	3,930,722

The nature and terms of forward rate agreements outstanding are set out below:

(Rs '000)

Nature	Terms	As at 31 March 2020 No.	As at 31 March 2020 Notional principal	As at 31 March 2019 No.	As at 31 March 2019 Notional principal
Trading swaps	Receive fixed pay floating	98	27,362,150	24	3,220,000

HSBC

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Schedule 18 – Significant accounting policies and notes to accounts *(Continued)*

5 Notes to accounts *(Continued)*

5.6 Statutory disclosures (Continued)

(al) Exchange traded interest rate derivatives

(Rs '000)

No.	Particulars	31 March 2020	31 March 2019
(i)	Notional principal amount of exchange traded interest rate derivatives undertaken during the year (instrument-wise) 10 Yrs G Secs	–	–
(ii)	Notional principal amount of exchange traded interest rate derivatives outstanding	–	–
(iii)	Notional principal amount of exchange traded interest rate derivatives outstanding and not "highly effective"	–	–
(iv)	Mark-to-market value of exchange traded interest rate derivatives outstanding and not "highly effective"	–	–

(am) Subordinated debt

There was no subordinated debt that was outstanding at any point of time during the year ended 31 March 2020 (previous year: Rs. Nil).

(an) Penalties imposed by RBI

No penalties were paid to RBI during the year. (Previous year: Rs.10 million vide order No. 624/02.03.012/2018-19 u/s 35, 35A, 46, 47A of Banking Regulation Act, 1949).

(ao) Operating Expenses – other expenditure

"Other expenditure" includes the following:

(Rs '000)

	For the year ended 31 March 2020	For the year ended 31 March 2019
Head office costs allocated	1,671,162	1,997,788
Services contracted out	10,100,166	7,816,656
PSLC cost	1,733,474	1,002,062

(ap) Bancassurance income

During the year, the Bank earned an amount of Rs.1,071 million towards bancassurance income (previous year: Rs. 1,200 million).

(Rs '000)

Nature of Income	For the year ended 31 March 2020	For the year ended 31 March 2019
For selling life insurance products	190,507	160,188
For selling non life insurance products	15,166	15,202
For selling mutual fund products	865,826	1,024,805
Total	1,071,499	1,200,195

(aq) Micro, Small and Medium Enterprises

Under the Micro, Small and Medium Enterprises Development Act, 2006 (MSMED), the following disclosure is made based on the information and records available with the management in respect of the Micro, Small and Medium Enterprises who have registered with the competent authorities:

(Rs '000)

	31 March 2020	31 March 2019
Principal amount remaining unpaid to any registered supplier as at the year end	9,989	15,076
Interest due thereon	–	–
Amount of interest paid by the Company in terms of section 16 of the MSMED, along with the amount of the payment made to the supplier beyond the appointed day during the accounting year	–	–
Amount of interest due and payable for the period of delay in making payment (which have been paid but beyond the appointed day during the year) but without adding the interest specified under the MSMED act	–	–
Amount of interest accrued and remaining unpaid at the end of the accounting year	–	–
Amount of further interest remaining due and payable even in the succeeding years, until such date when the interest dues as above are actually paid to the small enterprises, under Section 23 of the MSMED act	–	–

Schedules forming part of the Financial Statements for the year ended 31 March 2020 *(Continued)*

(Currency: Indian rupees)

Schedule 18 – Significant accounting policies and notes to accounts *(Continued)*

5 Notes to accounts *(Continued)*

5.6 Statutory disclosures (Continued)

(ar) Maturity pattern

Management has made certain estimates and assumptions in respect of behavioural maturities of non-term assets and liabilities and trading securities while compiling their maturity profile which is consistent with the Bank's reporting to the RBI which have been relied upon by the auditors.

As at 31 March 2020

(Rs '000)

	Day 1	**2 to 7 days**	**8 to 14 days**	**15-30 days**	**31 days to 2 months**	**2 months to 3 months**	**Over 3 months to 6 months**	**Over 6 months to 12 months**	**Over 1 year to 3 years**	**Over 3 years to 5 years**	**Over 5 years**	**Total**
Loans and Advances	**9,639,602**	**60,320,410**	**21,099,449**	**70,912,948**	**48,341,399**	**57,734,033**	**77,865,715**	**74,129,817**	**118,143,421**	**111,846,185**	**115,773,677**	**765,806,656**
Investment Securities	**265,222,132**	**49,676,878**	**91,343,796**	**62,474,606**	**19,854,459**	**16,451,699**	**20,324,509**	**27,528,253**	**72,663,327**	**18,915,470**	**71,765,001**	**716,220,130**
Deposits	**62,895,626**	**166,007,536**	**69,263,356**	**136,798,703**	**67,137,304**	**64,163,471**	**56,528,390**	**94,600,096**	**62,761,615**	**468,873,402**	**378**	**1,249,029,877**
Borrowings	**1,092,637**	**110,837,987**	**94,721,179**	**277,500**	**243,400**	**520,900**	**2,562,700**	**13,408,573**	**20,752,478**	**–**	**–**	**244,417,354**
Foreign Currency Assets	**32,914,905**	**18,789,206**	**7,778,701**	**41,876,765**	**34,359,895**	**36,333,348**	**41,284,168**	**51,792,299**	**30,453,126**	**9,124,381**	**11,578,675**	**316,285,469**
Foreign Currency Liabilities	**10,586,763**	**51,007,032**	**1,125,512**	**35,799,355**	**24,043,275**	**25,097,224**	**39,551,855**	**52,122,728**	**23,893,243**	**52,257,910**	**12,173,567**	**327,658,464**

In accordance with the ALM guideline issued by RBI, the estimates and behavioural assumptions used by the Bank for classification of assets and liabilities under the different maturity buckets is based on the returns submitted to RBI for the relevant periods.

Moratorium offered to customers based on RBI COVID-19 relief package announced on 27th March 2020 has been adjusted in above maturity profile except for credit cards as same are reported based on behavioral study.

As at 31 March 2019

(Rs '000)

	Day 1	2 to 7 days	8 to 14 days	15-30 days	31 days to 2 months	2 months to 3 months	Over 3 months to 6 months	Over 6 months to 12 months	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years	Total
Loans and Advances	9,130,971	49,376,656	29,849,954	58,426,196	52,265,485	39,746,536	54,317,023	57,995,742	113,589,384	88,974,073	115,374,285	669,046,305
Investment Securities	79,167,472	171,373,225	114,426,479	64,802,124	46,418,235	26,265,038	24,642,641	36,644,691	66,958,718	16,987,482	62,051,516	709,737,621
Deposits	53,960,058	153,374,968	85,437,366	70,886,772	89,364,233	71,308,690	60,194,244	52,162,259	58,912,947	330,495,052	124	1,026,096,713
Borrowings	7,915,095	157,009,527	100,000,000	277,500	30,277,500	–	832,500	31,476,673	5,727,500	–	–	333,516,295
Foreign Currency Assets	4,933,189	85,900,836	1,832,847	7,757,204	8,107,675	6,976,908	10,331,932	12,237,261	19,702,111	9,708,745	2,877,545	170,366,253
Foreign Currency Liabilities	15,149,267	6,143,249	342,480	2,894,915	1,585,820	2,102,999	3,274,560	37,053,346	9,982,171	34,197,855	3,671,240	116,397,902

(as) Overseas Assets, NPAs and Revenue

As the Bank is a branch of a foreign bank, this disclosure is not considered applicable.

(at) Liquidity Coverage Ratio

Qualitative disclosure

The Liquidity Coverage Ratio (LCR) promotes the short term resilience of banks to potential liquidity disruptions by ensuring that they have sufficient unencumbered High Quality Liquid Assets (HQLAs) (which can be converted readily into cash) to survive in an acute scenario lasting for 30 days, by which time it is assumed that appropriate corrective action would be taken.

The Bank has maintained an LCR of 168% as at 31 Mar 2020 and average LCR ratio as of 176% for the financial year ending March 2020 (based on the simple average of the daily values for the year ended March 31, 2020) which remains well above the minimum regulatory requirement.

i. Main drivers of LCR results and evolution of contribution of inputs to LCR's calculation over time

The key components/drivers of the LCR are (i) stock of HQLA and (ii) Net cash outflows over the next 30 calendar days. HQLA comprises high quality assets that can be readily sold or used as collateral to obtain funds in a range of stress scenarios. They should be unencumbered and easily convertible into cash at little or no loss of value. Net cash outflows are the total expected cash outflows minus expected cash inflows for the subsequent 30 calendar days. Cash outflows and inflows are calculated by multiplying outstanding balances of various types of liabilities and off-balance sheet commitment and various categories of contractual receivables by the prescribed outflows/inflows rates. Total inflows are capped at 75% of total outflows for LCR computation. The contribution of Facility to Avail Liquidity for LCR (FALLCR) and Marginal Standing Facility (MSF) has increased over time with RBI permitting up to 15.50% of Net Demand and Time Liabilities (NDTL) as at 31 Mar 2019 which has further increased to 16.50% as of 31 Mar 2020. As a part of COVID-19 liquidity support measure, RBI has allowed additional 1% to be considered as MSF till 30 June 2020.

ii. Intra period changes as well as changes over time

The LCR requirement is binding for banks from 1 January 2015; with the minimum requirement of 100% applicable from 1 January 2019. As a part of COVID-19 liquidity support measure, RBI has lowered the LCR requirement to 80% from April'20 with gradual phase back as 90% from 01 Oct 2020 and 100% from 01 April 2021.

Schedules forming part of the Financial Statements for the year ended 31 March 2020 (*Continued)*

(Currency: Indian rupees)

Schedule 18 – Significant accounting policies and notes to accounts *(Continued)*

5 Notes to accounts ***(Continued)***

5.6 Statutory disclosures (Continued)

(at) Liquidity Coverage Ratio (Continued)

iii. Composition of HQLA

Level 1 assets for the Bank comprise 92% of the total average HQLAs for the period 01 April 2019 to 31 March 2020. Approximately 99% of the Level 1 assets are in the form of Government securities. This includes the regulatory dispensation allowed up to 17.50% (including 1% increase in Marginal Standing facility) of Net Demand and Time Liabilities in the form of borrowing limit available through Marginal Standing Facility (MSF) and Facility to Avail Liquidity for LCR (FALLCR).

Level 2 assets are further divided as Level 2A and Level 2B. For the Bank, Level 2A assets consist of bonds issued by Public Sector Entities that are assigned a 20% risk weight under the BASEL II Standardised Approach for credit risk.Bonds issued by non-financial corporate and commercial papers that are assigned a credit rating of AA- or below are also classified as Level 2A. For the period April 2019 to March 2020, the Bank held investments in papers that qualified as Level 2A assets with a haircut of 15% and which constituted approximately 8% of the total HQLAs, well below the maximum cap of 40%.

iv. Concentration of funding sources

The purpose of monitoring the funding sources is to ensure that there is no significant source, the withdrawal of which could trigger liquidity problems. The Bank relies on the customer deposits as the primary source of stable funds. The level of customer deposits continues to exceed the level of loans to customers. The Bank's customer deposits are diversified across retail, commercial, corporate and institutional clients as well as across products, tenors and currency. The positive funding gap is predominantly deployed in Level 1 assets. Apart from customer deposits, the Bank receives foreign currency funding from Hongkong branch to support foreign currency trade advances, however this support is not material. The deposit mix is of stable retail deposits and wholesale deposits in line with the overall strategy of the bank.

v. Derivative exposure and potential collateral calls

Derivative exposures with outflows and inflows in the next 30 calendar days are included in the LCR calculations. Further, historical look back approach is considered to arrive at an expected outflow related to market valuation changes. The largest absolute net 30 day collateral flow realized during the preceding 24 months is taken as outflow for LCR computation.

vi. Currency mismatch in LCR

LCR computation is aggregated across currencies, with the predominant currency being INR. The foreign currency advances are mainly in USD and are funded through foreign currency deposits and borrowing from HSBC Hongkong, however HQLA's are maintained in INR.

vii. Description of the degree of centralization of liquidity management and interaction between group's units.

The Bank's liquidity and funding management activities are centralized and managed by the Balance Sheet Management (BSM) team. The framework and policy around the liquidity and funding management is driven through the Asset, Liability and Capital Management (ALCM) function and reports in to the Finance function. The liquidity risk management policies are approved by the Asset and Liability Management Committee (ALCO). The Bank has in place its internal framework for monitoring of the balance sheet on a daily basis against the prescribed internal limits. The Bank also maintains a Contingency Funding Plan, which outlines the actions to be taken to meet any liquidity crisis scenarios that may emerge.

viii. Other inflows and outflows in the LCR calculation that are not captured in the LCR common template but which the institution considers to be relevant for its liquidity profile.

Nil.

Quantitative disclosure

INR million

Sr. No.	Particulars	**Three months ended 31 March 2020**		Three months ended 31 December 2019		Three months ended 30 September 2019		Three months ended 30 June 2019		Three months ended 31 March 2019	
		Unweighted Value (average)	**Total Weighted Value** (average)	Unweighted Value (average)	Total Weighted Value (average)	Unweighted Value (average)	Total Weighted Value (average)	Unweighted Value (average)	Total Weighted Value (average)	Unweighted Value (average)	Total Weighted Value (average)
	High quality liquid assets										
1.	**Total high quality liquid assets**	**NA**	**520,030**	NA	469,227	NA	372,721	NA	417,930	NA	365,812
	Cash Outflows										
2.	**Retail deposits and deposits from small business customers, of which:**	**238,308**	**22,905**	233,686	22,474	240,484	23,155	230,085	22,114	220,250	21,136
	(i) Stable Deposits	**18,504**	**925**	17,889	894	17,868	893	17,882	894	17,776	889
	(ii) Less Stable Deposits	**219,804**	**21,980**	215,797	21,580	222,616	22,262	212,203	21,220	202,474	20,247
3.	**Unsecured wholesale funding, of which**:	**740,175**	**347,444**	703,548	329,960	632,135	293,076	657,181	305,171	615,759	289,832
	(i) Operational deposits (all counterparties)	**200,589**	**50,063**	188,298	46,997	171,405	42,770	179,748	44,850	166,760	41,605
	(ii) Non-operational deposits (all counterparties)	**539,586**	**297,381**	515,250	282,963	460,730	250,306	477,433	260,321	448,999	248,227
	(iii) Unsecured debt	**–**	**–**	–	–	–	–	–	–	–	–

The Hongkong and Shanghai Banking Corporation Limited – India Branches
(Incorporated in Hong Kong SAR with limited liability)

Schedules forming part of the Financial Statements for the year ended 31 March 2020 (*Continued*)

(Currency: Indian rupees)

Schedule 18 – Significant accounting policies and notes to accounts ***(Continued)***

5 Notes to accounts ***(Continued)***

5.6 Statutory disclosures (Continued)

(at) Liquidity Coverage Ratio (Continued)

Quantitative disclosure ***(Continued)***

INR million

Sr. No.	Particulars	**Three months ended 31 March 2020** Unweighted Value (average)	**Three months ended 31 March 2020** Total Weighted Value (average)	Three months ended 31 December 2019 Unweighted Value (average)	Three months ended 31 December 2019 Total Weighted Value (average)	Three months ended 30 September 2019 Unweighted Value (average)	Three months ended 30 September 2019 Total Weighted Value (average)	Three months ended 30 June 2019 Unweighted Value (average)	Three months ended 30 June 2019 Total Weighted Value (average)	Three months ended 31 March 2019 Unweighted Value (average)	Three months ended 31 March 2019 Total Weighted Value (average)
4.	Secured wholesale funding	**NA**	**–**	NA	–	NA	–	NA	–	NA	–
5.	Additional requirements, of which	**65,240**	**11,761**	65,008	11,648	74,336	11,544	80,064	13,874	86,385	13,362
	(i) Outflows related to derivative exposures and other collateral requirements	**3,725**	**3,725**	3,874	3,874	2,697	2,697	5,161	5,161	3,229	3,229
	(ii) Outflows related to loss of funding on debt products	**–**	**–**	–	–	–	–	–	–	–	–
	(iii) Credit and liquidity facilities	**61,515**	**8,036**	61,134	7,774	71,639	8,847	74,903	8,713	83,156	10,133
6.	**Other contractual funding obligations**	**5,688**	**5,688**	3,870	3,870	4,353	4,353	7,155	7,155	17,431	17,431
7.	**Other contingent funding obligations**	**1,211,962**	**49,933**	1,166,771	47,683	1,094,950	45,003	1,065,471	44,007	1,062,921	43,734
8.	**TOTAL CASH OUTFLOWS**	**NA**	**437,731**	NA	415,635	NA	377,131	NA	392,321	NA	385,495
	Cash Inflows										
9.	Secured Lending (e.g. reverse repo)	**58,922**	**–**	58,198	30	13,220	–	17,501	17	10,308	5
10.	Inflows from fully performing exposures	**210,065**	**144,628**	215,127	145,485	216,641	149,772	207,842	139,232	180,476	128,114
11.	Other cash inflows	**12,581**	**8,380**	11,542	7,385	8,354	6,097	10,992	8,470	11,309	8,549
12.	**TOTAL CASH INFLOWS**	**NA**	**153,008**	NA	152,900	NA	155,869	NA	147,719	NA	136,668
13.	**Total HQLA**	**NA**	**520,030**	**NA**	469,227	NA	372,721	NA	417,930	NA	365,812
14.	Total net cash outflows	**NA**	**284,723**	NA	262,735	NA	221,262	NA	244,602	NA	248,827
15.	**Liquidty Coverage Ratio (%)**	**NA**	**182.6%**	NA	178.6%	NA	168.5%	NA	170.9%	NA	147.0%

(au) Letters of comfort

The Bank has not issued any letters of comfort during the year ended 31 March 2020 (previous year: Rs. Nil).

(av) Remuneration policy

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

(aw) Drawdown from reserves

The Bank has not drawn down from reserves during the year ended 31 March 2020 (previous year: Rs. Nil).

(ax) Disclosure of complaints

Customer Complaints

	For the year ended 31 March 2020	For the year ended 31 March 2019
No. of complaints pending at the beginning of the year	**487**	1,070
No. of complaints received during the year	**14,904**	21,511
No. of complaints redressed during the year	**15,173**	22,094
No. of complaints pending at the end of the year	**218**	487

Awards Passed By Banking Ombudsman

	For the year ended 31 March 2020	For the year ended 31 March 2019
No. of unimplemented awards at the beginning of the year	**–**	–
No. of awards passed by the Banking Ombudsman during the year	**–**	–
No of awards lapsed during the year	**–**	–
No. of unimplemented awards at the end of the year	**–**	–

The Hongkong and Shanghai Banking Corporation Limited – India Branches
(Incorporated in Hong Kong SAR with limited liability)

Schedules forming part of the Financial Statements for the year ended 31 March 2020 (*Continued)*
(Currency: Indian rupees)

Schedule 18 – Significant accounting policies and notes to accounts *(Continued)*

5 Notes to accounts *(Continued)*

5.6 Statutory disclosures (Continued)

(ay) Factoring services

The Bank has receivables acquired under factoring services amounting to Rs. 6,065 million as on 31 March 2020 (previous year: Rs 10,843 million).

(az) Details of provisioning pertaining to fraud accounts

The following table sets forth, for the periods indicated, the details of provisioning pertaining to fraud accounts.

(Rs '000)

	For the year ended 31 March 2020	For the year ended 31 March 2019
Number of frauds reported	**3,624**	2,899
Amount involved in frauds	**102,174**	204,094
Provision made	**14,638**	99,404
Unamortised provision debited from balance in profit and loss account under 'Reserves and Surplus'	–	–

(ba) Disclosure – COVID-19 Regulatory Package

The SARS-CoV-2 virus responsible for COVID-19 continues to spread across the globe and India, which has contributed to a significant decline and volatility in global and Indian financial markets and a significant decrease in global and local economic activities. On March 11, 2020, the COVID-19 outbreak was declared a global pandemic by the World Health Organization. Numerous governments and companies, including the Bank, have introduced a variety of measures to contain the spread of the virus. On March 24, 2020, the Indian government announced a strict 21-day lockdown which was further extended till 31 May 2020 across the country to contain the spread of the virus. The extent to which the COVID-19 pandemic will impact the Bank's results will depend on future developments, which are highly uncertain, including, among other things, any new information concerning the severity of the COVID-19 pandemic and any action to contain its spread or mitigate its impact whether government-mandated or elected by the Bank.

In accordance with the RBI guidelines relating to COVID-19 Regulatory Package RBI/2019-20/186 DOR.No.BP. BC.47/21.04.048/2019-20 dated 27 March 2020 and RBI/2019-20/220 DOR.No.BP.BC.63/21.04.048/2019-20 dated 17 April 2020, the Bank granted a moratorium of three months on the payment of all installments and/or interest, as applicable, falling due between March 1, 2020 and May 31, 2020 to all eligible borrowers classified as Standard, even if overdue, as on February 29, 2020. In view of the extension of lockdown and continuing disruption on account of COVID-19, RBI vide its circular RBI/2019-20/244 DOR.No.BP.BC.71/21.04.048/2019-20 dated 23 May 2020 has permitted the banks to extend the moratorium by another three month i.e. from 01 June 2020 to 31 August 2020. For all such accounts where the moratorium is granted, the asset classification shall remain stand still during the moratorium period (i.e. the number of days past-due shall exclude the moratorium period for the purposes of asset classification under the Income Recognition, Asset Classification and Provisioning norms).

In addition to the provisions made in line with RBI ciruclar dated 17 April 2020 above, the bank has considered additional provision for standard advances to certain stressed sector in line with RBI circular RBI/2016-17/282 DBR.No.BP. BC.64/21.04.048/2016-17 dated 18 April 2017. Given the likely material impact of the Covid 19 outbreak on the broader global economy including India, the bank has identified the sectors which are likely to witness stress and additional standard asset provision has been considered for such stressed sectors. Accordingly the bank has taken an additional standard asset provision of Rs 2,531 million.

The quantitative disclosures as required by the above referred RBI circular dated April 17, 2020 are given below:

(Rs '000)

Particulars	**For the year ended 31 March 2020**
Respective amounts in SMA/overdue categories, where the moratorium/deferment was extended, in terms of paragraph 2 and 3 of the circular	**1,754,405**
Respective amount where asset classification benefits is extended*	**56,879**
Provisions made during the quarter ended March 31, 2020 in terms of para 5 of the circular	**113,252**
Provisions adjusted during the respective accounting periods against slippages in terms of paragraph 6 of the circular	**–**
Residual provisions as of March 31, 2020 in terms of paragraph 6 of the circular	**113,252**

* represents SMA-2 accounts where asset classification benefit is extended

Schedules forming part of the Financial Statements for the year ended 31 March 2020 *(Continued)*
(Currency: Indian rupees)

Schedule 18 – Significant accounting policies and notes to accounts *(Continued)*

5 Notes to accounts *(Continued)*

5.7 Employee benefits

a) Summary

(Rs '000)

	As at 31 March 2020		As at 31 March 2019	
	Gratuity	**Pension**	Gratuity	Pension
Defined benefit obligation	**1,305,582**	**3,687,716**	1,154,801	2,745,030
Fair value of plan assets	**1,158,716**	**1,559,886**	1,008,097	1,459,457
Net Deficit	**146,866**	**2,127,830**	146,704	1,285,573

The pension liability includes a liability in respect of the unfunded plans of Rs. 356 million (previous year: Rs. 332 million).
The majority of the plan assets are invested in government securities, corporate bonds and special deposit schemes.

b) Changes in present value of defined benefit obligations

(Rs '000)

	For the year ended 31 March 2020		For the year ended 31 March 2019	
	Gratuity	**Pension**	Gratuity	Pension
Opening balance	**1,154,801**	**2,745,030**	1,058,961	2,515,636
Current service cost	**80,690**	**93,795**	76,033	87,505
Interest cost	**84,064**	**206,040**	80,126	198,632
Plan amendment	**–**	**–**	–	–
Benefits paid	**(97,394)**	**(84,707)**	(114,780)	(73,359)
Actuarial loss/(gain) recognised during the year	**83,421**	**727,558**	54,461	16,616
Closing Balance	**1,305,582**	**3,687,716**	1,154,801	2,745,030

c) Changes in the fair value of plan assets

(Rs '000)

	For the year ended 31 March 2020		For the year ended 31 March 2019	
	Gratuity	**Pension**	Gratuity	Pension
Opening balance	**1,008,097**	**1,459,457**	843,257	1,380,705
Expected return on plan assets	**82,632**	**114,455**	71,469	108,640
Contributions by the bank	**147,000**	**–**	215,000	–
Benefits paid	**(97,394)**	**(57,528)**	(114,780)	(45,421)
Actuarial gain /(loss) recognised during the year	**18,381**	**43,50**2	(6,849)	15,533
Closing Balance	**1,158,716**	**1,559,886**	1,008,097	1,459,457
Actual return on plan assets	**101,013**	**157,957**	64,620	124,173

Based on actuarial valuation report expected contribution of the Bank is Rs. 147 million to the gratuity plan assets and Rs. Nil to the pension assets for the annual period ending on 31 March 2021.

d) Total expense recognised in the profit and loss account in schedule 16 (I)

(Rs '000)

	For the year ended 31 March 2020		For the year ended 31 March 2019	
	Gratuity	**Pension**	Gratuity	Pension
Current service cost	**80,690**	**93,795**	76,033	87,505
Interest cost	**84,064**	**206,040**	80,126	198,632
Plan amendment	**–**	**–**	–	–
Expected return on plan assets	**(82,632)**	**(114,455)**	(71,469)	(108,640)
Net actuarial loss /(gain) recognised during the year	**65,040**	**684,056**	61,310	1,083
	147,162	**869,436**	146,000	178,580

Schedules forming part of the Financial Statements for the year ended 31 March 2020 (*Continued*)
(Currency: Indian rupees)

Schedule 18 – Significant accounting policies and notes to accounts *(Continued)*

5 Notes to accounts *(Continued)*

5.7 Employee benefits (Continued)

e) Key assumptions

	For the year ended 31 March 2020		For the year ended 31 March 2019	
	Gratuity	**Pension**	Gratuity	Pension
Salary Escalation #	**6%-11%**	**11%**	6%-11%	11%
Discount rate*	**6.6%**	**6.6%**	7.6%	7.6%
Expected rate of return on plan assets	**8%**	**8%**	8%	8%
Attrition rate	**1.5%-14%**	**1.5%-14%**	1%-15%	1%-15%

Salary escalation rate varies based on the category of employees, their salary terms and future period of employment. Further, the estimates of future salary increases, considered in actuarial valuation, take into consideration inflation, seniority, promotion, bipartite settlements and other relevant factors such as supply and demand in the employment market.

* 6.9% for unfunded pension schemes (previous year: 7.8%).

f) Experience adjustments

(Rs '000)

	For the year ended 31 March				
	2020	2019	2018	2017	2016
Gratuity					
Defined benefit obligation	**1,305,582**	1,154,801	1,058,961	924,936	988,032
Fair value of plan assets	**1,158,716**	1,008,097	843,257	983,226	905,961
Net deficit/(surplus)	**146,866**	146,704	215,704	(58,290)	82,071
Experience loss on plan liabilities	**18,923**	28,283	20,632	49,792	36,099
Experience (gain)/loss on plan assets	**(18,381)**	6,849	108,455	(122,156)	38,470
Pension					
Defined benefit obligation	**3,687,716**	2,745,030	2,515,636	3,580,169	4,930,944
Fair value of plan assets	**1,559,886**	1,459,457	1,380,705	1,557,604	1,974,755
Net deficit	**2,127,830**	1,285,573	1,134,931	2,022,565	2,956,189
Experience loss/(gain) on plan liabilities	**77,365**	(76,764)	184,361	(71,258)	(1,474,063)
Experience (gain)/loss on plan assets	**(43,502)**	(15,533)	51,944	(106,663)	(113,888)

g) Defined contribution plan

The Bank has recognised an amount of Rs. 355 million as an expense for the defined contribution plan of provident fund (previous year: Rs. 322 million) and Rs. 11 million towards defined contribution plan of pension fund (previous year: Rs. 7 million).

5.8 Employee share-based payments

Eligible employees of the Bank have been granted options/awards of equity shares of the ultimate holding company HSBC Holdings plc. As per the schemes, these options/awards vest in a graded manner over an average period of one to five years. During the year the Bank has included these costs under "Payments to and provisions for employees" as compensation cost.

5.9 Segment Reporting

Segment Description

In line with the RBI guidelines, the Bank has identified "Treasury", "Retail Banking", "Corporate Banking", and "Other Banking Business" as the primary reporting segments.

Treasury undertakes trading operations, derivatives trading and foreign exchange operations. Principal expenses of this segment comprise interest on market borrowings, personnel costs and other direct overheads and allocated expenses.

Retail Banking includes personal banking business of the Bank, servicing retail customers and offering personal banking products. This segment includes exposures, which fulfill the four criteria of orientation, product, granularity and low value of individual exposures for retail exposures as detailed in the RBI guidelines for "Segment Reporting". Credit card operations and home loans are also included in Retail Banking.

Corporate Banking caters to the Corporate and Institutional customers. This segment includes all advances to trusts, partnership firms, companies and statutory bodies, which are not included under "Retail Banking". These also include custody operations, payment and settlement operations and factoring advances. Small and medium enterprises are also included in Corporate Banking.

Other Banking Business includes all other banking operations not covered under "Treasury", "Retail Banking" and "Corporate Banking" segments. It also includes all other residual operations such as para banking transactions/activities, except for credit card, factoring business, custody operations and payment and settlement operations.

Expense of these segments comprises interest expense on deposits, infrastructure cost for the branch network, personnel costs, other direct overheads and allocated expenses.

The Hongkong and Shanghai Banking Corporation Limited – India Branches
(Incorporated in Hong Kong SAR with limited liability)

Schedules forming part of the Financial Statements for the year ended 31 March 2020 (*Continued)*

(Currency: Indian rupees)

Schedule 18 – Significant accounting policies and notes to accounts *(Continued)*

5 Notes to accounts *(Continued)*

5.9 Segment Reporting (Continued)

Segment Description (Continued)

Segment revenues stated below are aggregate of Schedule 13 - Interest income and Schedule 14 - Other income and after considering the net fund transfer pricing adjustment. Treasury gives notional interest benefit to other divisions for the funds mobilised by the latter through deposits, and similarly charges notional interest to other divisions for the funds utilised by them for lending and investment purposes. Based on tenor of assets/ liabilities and market scenarios, Treasury calculates notional interest rates used for this purpose.

(Rs '000)

Business Segments	**Treasury**	**Retail Banking**	**Corporate Banking**	**Other Banking Business**	**Total**
Particulars			**For the year ended 31 March 2020**		
Segment Revenue	**34,040,700**	**23,485,276**	**79,231,262**	**1,265,225**	**138,022,463**
Segment Result	**22,382,873**	**708,908**	**30,796,601**	**(612,230)**	**53,276,152**
Unallocated expenses					**(1,671,162)**
Unallocated provisions					**–**
Extraordinary items					–
Profit before taxes					**51,604,990**
Income taxes					**(23,828,747)**
Net profit					**27,776,243**
			As at 31 March 2020		
Other information					
Segment assets	**1,287,327,445**	**111,291,311**	**661,802,862**	**38,579,877**	**2,099,001,495**
Unallocated assets					**12,736,767**
Total assets					**2,111,738,262**
Segment liabilities	**526,084,084**	**252,410,542**	**1,047,016,147**	**27,513,473**	**1,853,024,246**
Unallocated liabilities					**95,124**
Total net assets					**258,618,892**
Depreciation	**114**	**19,703**	**1,655**	**705,794**	**727,266**
Non cash Expense other than depreciation	**282,248**	**1,084,269**	**3,704,630**	**-**	**5,071,147**

(Rs '000)

Business Segments	Treasury	Retail Banking	Corporate Banking	Other Banking Business	Total
Particulars			For the year ended 31 March 2019		
Segment Revenue	28,072,540	22,224,704	68,747,736	1,340,015	120,384,995
Segment Result	18,713,076	1,511,271	28,336,273	(1,116,558)	47,444,062
Unallocated expenses					(1,997,788)
Unallocated provisions					–
Extraordinary items					–
Profit before taxes					45,446,274
Income taxes					(19,789,932)
Net profit					25,656,342
			As at 31 March 2019		
Other information					
Segment assets	1,029,134,228	106,940,566	568,094,296	49,481,512	1,753,650,602
Unallocated assets					11,024,664
Total assets					1,764,675,266
Segment liabilities	450,590,591	236,296,957	825,719,409	21,184,134	1,533,791,091
Unallocated liabilities					71,083
Total net assets					230,813,092
Depreciation	280	14,856	485	761,324	776,945
Non cash Expense other than depreciation	(468,148)	1,122,750	(992,958)	15,513	(322,843)

In computing the above information, certain estimates and assumptions have been made by the management which were relied upon by the auditors.

Geographical segments

The Bank does not have overseas operations and is considered to operate only in the domestic segment.

Schedules forming part of the Financial Statements for the year ended 31 March 2020 (*Continued)*

(Currency: Indian rupees)

Schedule 18 – Significant accounting policies and notes to accounts *(Continued)*

5 Notes to accounts *(Continued)*

5.10 Related parties

The related parties of the Bank are broadly classified as follows:

a) Parent

The Hongkong and Shanghai Banking Corporation Limited, Hong Kong (HBAP) is the Head office of the Bank and HSBC Holdings plc is the ultimate holding company of the Bank.

b) Branch Offices

Branch offices comprise all branches of The Hongkong and Shanghai Banking Corporation Limited outside India.

c) Fellow subsidiaries

Fellow subsidiaries comprise companies, which have a common ultimate holding company, HSBC Holdings plc. These are as follows:
HSBC Bank plc and branches
HSBC Private Equity Management (Mauritius) Limited (Liaison office)
HSBC Bank Canada
HSBC Bank Malaysia Berhad
HSBC Trinkaus and Burkhardt AG
HSBC Bank Mauritius Limited
HSBC Bank Australia Limited
HSBC France and branches
HSBC Bank (China) Company Limited
HSBC Software Development (Guangdong) Limited
HSBC Bank Oman SAOG
HSBC Bank A.S. Turkey
HSBC Bank Polska S.A.
HSBC Bank (RR) Moscow
HSBC Software Development (Malaysia) Sdn Bhd
HSBC Service Delivery (Czech Republic) S.R.O
HUSI North America
HSBC Bank (Taiwan) Limited
HSBC Bank plc Joburg Branch
HSBC Software Development Malayasia
HSBC Bank (Singapore) Limited
HSBC Bank (Vietnam) Limited
HSBC Germany Holdings GmbH
HSBC Global Services (UK) Limited
HSBC Global Services (HK) Limited
HSBC Bank Middle East Limited and branches
HSBC Private Banking Holdings (Suisse) SA
HSBC Bank USA, N.A.
HSBC Global Operations Company Limited
HSBC Investsmart Financial Services Limited
HSBC Asset Management (India) Private Limited
HSBC Professional Services (India) Private Limited
HSBC Electronic Data Processing India Private Limited
HSBC Invest Direct (India) Limited
HSBC Invest Direct Securities (India) Private Limited
HSBC Insurance Brokers (India) Private Limited
HSBC Securities and Capital Markets (India) Private Limited
HSBC Software Development (India) Private Limited
HSBC Global Shared Services (India) Private Limited
HSBC Invest Direct Financial Services (India) Limited
HSBC Invest Direct Distribution Services (India) Limited
HSBC Invest Direct Academy for Insurance and Finance (India) Limited
HSBC Invest Direct Sales & Marketing (India) Limited
Republic Leasing Uruguay SA
HSBC Services Japan Limited
HSBC Service Delivery (Poland) Sp. z o.o

d) Other Related Parties

Canara HSBC Oriental Bank of Commerce Insurance Company Limited

Saudi British Bank

e) Key management personnel and subsidiaries

The Chief Executive Officer Mr. Surendra Rosha is considered the Key Management Personnel of the Bank.
HSBC Agency (India) Private Limited is the only subsidiary of the Bank.

The Hongkong and Shanghai Banking Corporation Limited – India Branches
(Incorporated in Hong Kong SAR with limited liability)

Schedules forming part of the Financial Statements for the year ended 31 March 2020 (*Continued)*

(Currency: Indian rupees)

Schedule 18 – Significant accounting policies and notes to accounts ***(Continued)***

5 Notes to accounts ***(Continued)***

5.10 Related parties (Continued)

e) Key management personnel and subsidiaries (Continued)

The transactions of the Bank with related parties are detailed below except where there is only one related party (i.e. key management personnel and subsidiary in line with RBI circular DBR.BP.BC No.23/21.04.018/2015-16 dated 01 July 2015):

Income/Expense during the year with related parties is as follows:

(Rs '000)

	Parent		Fellow Subsidiaries & Other Related Parties	
	31 March 2020	31 March 2019	**31 March 2020**	31 March 2019
Interest Paid	**–**	–	**183,522**	75,055
Interest Received	**–**	–	**986,825**	120,733
Rendering of Services	**–**	–	**341,153**	187,744
Receiving of Services	**1,671,162**	1,997,788	**7,392,680**	4,956,871

(Rs '000)

	Branch offices	
	31 March 2020	31 March 2019
Interest Paid	**487,763**	839,477
Interest Received	**89,860**	221,973
Rendering of Services	**286,380**	165,210
Receiving of Services	**2,251,004**	1,717,693

Balances with related parties are as follows:

(Rs '000)

Parent	**As at 31 March 2020**	**Maximum during the year 2020**	As at 31 March 2019	Maximum during the year 2019
Borrowings	–	–	–	–
Deposit	–	–	–	–
Placement of deposits/other asset	–	–	–	–
Advances	–	–	–	–
Nostro balances	–	–	–	–
Other liabilities	95,124	392,459	71,083	2,571,178
Non Funded Commitments	–	–	–	–

(Rs '000)

Branch offices	**As at 31 March 2020**	**Maximum during the year 2020**	As at 31 March 2019	Maximum[1] during the year 2019
Borrowings	**43,791,573**	**52,097,136**	29,811,673	57,738,981
Deposit/other liability	**1,723,284**	**10,510,702**	2,315,119	20,141,961
Placement of deposits/other asset	**651,664**	**27,689,408**	11,467,372	43,281,873
Advances	**–**	**–**	–	–
Nostro balances	**1,918,678**	**6,266,430**	1,432,136	6,180,099
Positive MTMs	**27,356,382**	**34,397,690**	8,678,898	14,671,020
Negative MTMs	**31,880,415**	**23,681,061**	12,605,654	27,931,715
Derivative notionals	**1,454,085,988**	**1,663,615,375**	1,080,980,635	1,199,126,595
Non Funded Commitments	**15,198,356**	**17,178,713**	13,449,494	14,346,031

(Rs '000)

Fellow Subsidiaries & Other Related Parties	**As at 31 March 2020**	**Maximum[1] during the year 2020**	As at 31 March 2019	Maximum[1] during the year 2019
Borrowings	**1,092,638**	**22,589,439**	7,915,096	60,918,916
Deposit/other liability	**25,349,946**	**46,406,604**	7,653,611	52,948,988
Placement of deposits/other asset	**4,035**	**77,562**	5,775	202,858
Advances	**7,080,000**	**9,980,000**	8,625,800	8,625,800
Nostro balances	**1,739,339**	**12,998,540**	1,953,438	11,032,097
Positive MTMs	**508,957**	**1,744,395**	1,191,416	4,256,497
Negative MTMs	**593,156**	**15,455,912**	994,595	5,096,785
Derivative notionals	**45,304,361**	**176,879,835**	149,571,513	303,854,572
Investments	**100**	**100**	100	100
Non Funded Commitments	**18,039,229**	**18,823,356**	13,962,433	16,084,658

1 Disclosure of maximum balances has been enhanced and presented based on comparison of the total outstanding daily balances during the financial year.

Schedules forming part of the Financial Statements for the year ended 31 March 2020 (*Continued*)

(Currency: Indian rupees)

Schedule 18 – Significant accounting policies and notes to accounts *(Continued)*

5 Notes to accounts *(Continued)*

5.10 Related parties (Continued)

Material related party transactions (Amounts in Rs. 000's)

A related party transaction is disclosed as a material related party transaction wherever it exceeds 10% of all related party transactions in that category. Following are such related party transactions. All amounts are Indian Rupees in thousands.

Interest paid:

Payment of interest to HBAP Hong Kong Branch Rs. 487,276 (previous year: Rs. 839,403), HSBC Electronic Data Processing India Private Limited Rs. 120,485 (previous year: Rs. 52,073), HSBC Software Development (India) Private Limited Rs. 37,955 (previous year: Rs. 7,488), HSBC Professional Services (India) Private Limited Rs. 10,466 (previous year: Rs. 7,737).

Interest received:

Interest received from HBAP Hong Kong Branch Rs. 89,860 (previous year: Rs. 221,973), HSBC Electronic Data Processing India Private Limited Rs. 298,562 (previous year: Rs. 15,000), HSBC Software Development (India) Private Limited Rs. 686,350 (previous year: Rs. 105,732).

Rendering of services:

HBAP Hong Kong Branch Rs. 258,784 (previous year: Rs. 144,491), HUSI North America Rs. 144,261 (previous year: Rs. Nil), HSBC Securities and Capital Markets (India) Private Limited Rs. 59,671 (previous year: Rs. 60,332), HSBC Asset Management (India) Private Limited Rs. 42,534 (previous year: Rs. 42,881) and HSBC Electronic Data Processing India Private Limited Rs. 23,289 (previous year: Rs. 22,098).

Receiving of services:

Expenses for receiving of services from HBAP Hong Kong Branch Rs. 2,176,658 (previous year: Rs. 1,605,771) HSBC Electronic Data Processing India Private Limited Rs. 2,000,260 (previous year: Rs. 1,993,351) HSBC Global Services (UK) Limited Rs. 1,997,235 (previous year: 961,397), HSBC Software Development (India) Private Limited Rs. 1,218,129 (previous year: Rs. 655,008), HSBC Global Services (HK) Limited Rs. 998,668 (previous year: Rs. 331,039) and HBAP (Head Office) Rs. 1,671,162 (previous year: Rs. 1,997,788).

Borrowings:

HBAP Hong Kong Branch Rs. 43,791,573 (previous year: Rs. 29,811,673), HUSI North America Rs. 1,004,101 (previous year: Rs. 7,097,099) and HSBC France Rs. Nil (previous year: Rs. 800,851)

Placement of deposits/other asset:

HBAP Hong Kong Branch Rs. 651,664 (previous year: Rs. 11,467,372).

Nostros:

HBAP Japan Rs. 638,835 (previous year: Rs. 860,343), HBAP Hong Kong Branch Rs. 579,825 (previous year: Rs. 286,142), HBAP Singapore Rs. 311,407 (previous year: Rs. 6,423), HSBC Bank Plc Rs. 466,785 (previous year: Rs. 871,635), HSBC Bank Australia Limited Rs. 344,183 (previous year: Rs. 148,596) and HSBC Bank Canada, Rs. 192,427 (previous year: Rs. 405,719).

Deposits/other liability:

HBAP Hong Kong Rs. 734,845 (previous year: Rs. 1,037,377), HBAP Bangladesh Rs. 100,695 (previous year: Rs. 570,904), HBAP Sri Lanka Rs. 708,215 (previous year: Rs. 489,057), HSBC Electronic Data Processing India Private Limited Rs. 10,333,074 (previous year: Rs. 4,212,718) and HSBC Software Development (India) Private Limited Rs. 12,443,047 (previous year: Rs. 2,453,716).

Advances:

HSBC Software Development (India) Private Limited Rs. 5,580,000 (previous year: Rs. 5,625,800) and HSBC Electronic Data Processing India Private Limited Rs. 1,500,000 (previous year: Rs. 3,000,000).

Non Funded Commitments:

HBAP Hong Kong Branch Rs. 12,396,429 (previous year: Rs. 9,084,931) and HSBC France Rs. 4,217,662 (previous year: Rs. 3,703,782).

Derivative Notionals:

The Hongkong and Shanghai Banking Corporation Limited, Hong Kong Branch Rs. 1,414,505,589 (previous year: Rs. 1,063,611,742) and HSBC Bank plc Rs. 35,679,993 (previous year: Rs. 71,705,695), HSBC Bank USA Rs. 7,826,205 (previous year: Rs 13,418,840) and HSBC Bank Middle East Limited UAE Branch Rs. 580,067 (previous year: Rs. 21,878,924) and HSBC Electronic Data Processing India Private Limited Rs. Nil (previous year: Rs. 20,104,313)

Positive MTM:

The Hongkong and Shanghai Banking Corporation Limited, Hong Kong Branch Rs. 27,274,297 (previous year: Rs. 8,513,869) and HSBC Bank Plc Rs. 503,683 (previous year: Rs. 1,075,634).

Negative MTM:

The Hongkong and Shanghai Banking Corporation Limited, Hong Kong Branch Rs. 29,261,084 (previous year: Rs. 11,221,258), HSBC Bank Singapore Rs. 1,826,386 (previous year: Rs. 1,381,864), HSBC Electronic Data Processing India Private Limited Rs. Nil (previous year: Rs. 566,811), HSBC Bank Plc Rs. 264,764 (previous year: Rs. 212,111) and HSBC Bank USA Rs. 317,557 (previous year: Rs. 127,475).

Schedules forming part of the Financial Statements for the year ended 31 March 2020 *(Continued)*
(Currency: Indian rupees)

Schedule 18 – Significant accounting policies and notes to accounts *(Continued)*

5 Notes to accounts *(Continued)*

5.11 Deferred taxes

There is a deferred tax release of Rs. 881 million for the year ended 31 March 2020 (previous year: deferred tax charge of Rs. 1,136 million) which is included in the provision for taxation for the year.

The primary components that gave rise to deferred tax assets and liabilities included in the balance sheet are as follows:

(Rs '000)

Deferred tax assets	**As at 31 March 2020**	As at 31 March 2019
Provision for doubtful advances	**4,444,191**	3,353,245
Employee benefits	**1,442,423**	1,371,825
Fixed Assets	**1,378**	–
Provisions	**108,423**	108,423
Others	**192,702**	192,702
Gross Deferred tax assets	**6,189,117**	5,026,195
Deferred tax liability		
Specific reserve	**(1,417,295)**	(1,125,489)
Fixed Assets	**–**	(10,147)
Net Deferred Tax Asset	**4,771,822**	3,890,559

5.12 Operating leases

Total lease rental of Rs. 1,190 million (previous year: Rs. 1,175 million) has been included under Operating expenses - rent, taxes and lighting in the profit and loss account. The terms of escalation clauses are those normally prevalent in similar agreements.

Details of total future minimum lease payments under non-cancellable operating leases are set out below:

(Rs '000)

	As at 31 March 2020	As at 31 March 2019
Not later than one year	**61,120**	126,616
Later than one year and no later than five years	**103,270**	116,441
Later than five years	**–**	–
Total	**164,390**	243,057

5.13 Provisions and contingencies

The Bank has a process whereby periodically all long term contracts (including derivative contracts) are assessed for material foreseeable losses. At the year end, the Bank has reviewed and ensured that adequate provision as required under any law/accounting standards for material foreseeable losses on such long term contracts (including derivative contracts) has been made in the books of accounts. Details of provisions for reward points on credit cards and debit cards and other provisions are set out below:

(Rs '000)

	For year ended 31 March 2020		For year ended 31 March 2019	
	Reward points	**Other provisions**	Reward points	Other provisions
Opening balance at the beginning of the period	**383,779**	**290,251**	430,556	216,549
Add: Provision/(release) made during the period (Note 5.6.(c))	**174,928**	**(90,253)**	250,559	80,511
Less: (Utilisation) during the period	**(193,805)**	**–**	(297,336)	(6,808)
Closing balance at the end of the period	**364,902**	**199,998**	383,779	290,251

Note: Other provisions represent provision made for legal cases, overdue receivables, impaired non-financial assets and onerous contracts.

Description of contingent liabilities (included in schedule 12)

Claims against the Bank not acknowledged as debts - others

These represent various legal claims filed against the Bank in its normal course of business. It also includes claims/demands raised by Income tax authorities, which are disputed by the Bank. The Bank has reviewed all its pending litigations and proceedings and has adequately provided for where provisions are required and disclosed the contingent liabilities where applicable in its financial statements.

Schedules forming part of the Financial Statements for the year ended 31 March 2020 (*Continued)*

(Currency: Indian rupees)

Schedule 18 – Significant accounting policies and notes to accounts *(Continued)*

5 Notes to accounts *(Continued)*

5.13 Provisions and contingencies (Continued)

Liability on account of forward exchange and derivative contracts

The Bank enters into foreign exchange contracts, currency options, forward rate agreements, currency swaps, interest rate swaps and interest rate options on its own account and for customers. Forward exchange contracts are commitments to buy or sell foreign currency at a future date at the contracted rate. A foreign currency option is an agreement between two parties in which one grants to the other the right to buy or sell a specified amount of currency at a specific price within a specified time period or at a specified future time. Currency swaps are commitments to exchange cash flows by way of interest/principal in one currency against another, based on predetermined rates. Forward Rate Agreements are agreements to pay or receive a certain sum based on a differential interest rate on a notional amount for an agreed period. Interest rate swaps are commitments to exchange fixed and floating interest rate cash flows. The notional amounts that are recorded as contingent liabilities are typically amounts used as a benchmark for the calculation of the interest component of the contracts.

Guarantees given on behalf of constituents, acceptances, endorsements and other obligations

As a part of its normal banking activities the Bank issues documentary credit and guarantees on behalf of its customers. Documentary credits, such as letters of credit, enhance the credit standing of the customers of the Bank. Guarantees generally represent irrevocable assurances that the Bank will make payments in the event of the customer failing to fulfill its financial or performance obligations.

Other items for which the Bank is contingently liable

These include non-unconditionally cancellable undrawn commitments, indemnity, capital commitments and credit enhancements given in relation to securitisation transactions undertaken by the Bank.

5.14 Disclosure of CSR Expenditure

a) Gross amount required to be spent by the Bank during the year was Rs. 833 million (previous year: Rs. 748 million).

b) Amount spent during the year:

(Rs '000)

For the Year ended 31 March 2020	**In Cash**	**Yet to be paid in Cash**	**Total**
i) Construction/acquisition of any asset	–	–	–
ii) On purpose other than (i) above	832,955	–	832,955

(Rs '000)

For the Year ended 31 March 2019	In Cash	Yet to be paid in Cash	Total
i) Construction/acquisition of any asset	–	–	–
ii) On purpose other than (i) above	747,779	–	747,779

5. 15 Prior period comparatives

Previous year figures have been regrouped and reclassified where necessary to conform to current year's presentation.

For MSKA & Associates
Chartered Accountants
Firm Registration No: 105047W

Sd/-
Swapnil Kale
Partner
Membership No: 117812

For The Hongkong and Shanghai Banking Corporation Limited – India Branches

Sd/-
Amitabh Nevatia
Chief Financial Officer

Sd/-
Surendra Rosha
Group General Manager and Chief Executive Officer India

Mumbai
25 June 2020

The Hongkong and Shanghai Banking Corporation Limited – India Branches
(Incorporated in Hong Kong SAR with limited liability)

Basel III – Pillar 3 disclosures of India Branches for the year ended 31 March 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	Principle activity of the entity	Total balance sheet equity*	Total balance sheet assets*
HSBC InvestDirect Financial Services (India) Limited (HIFSL)(Note1)	Non-banking Finance company	1,462,847	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').

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	1,679,466
HSBC Electronic Data Processing India Private Limited	Back office/data processing/ call centre activities	3,554,678	20,631,061
HSBC Global Shared Services (India) Private Limited	Non-operating company	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 (Discontinued)	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 accounting 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.

Basel III – Pillar 3 disclosures of India Branches for the year ended 31 March 2020 *(Continued)*

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 March 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 31 March 2020**
(i) Common Equity Tier I (CET1)	**5.50%**
(ii) Capital Conservation Buffer (CCB) - (Refer note I)	1.88%
(iii) Counter-cyclical Buffer (CCCB) - (Refer note II)	–
(iv) Global Systemically Important Bank (G-SIB) - (Refer note III)	1.80%
Minimum Common Equity Tier I (i+ii+iii+iv)	**9.18%**
Minimum Tier I Capital	**10.68%**
Total Minimum Capital Adequacy Ratio	**12.68%**

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 Mach 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, 1.80% had been added to minimum requirement towards G-SIB as of 31 March 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.

b. Capital Structure

(i) Composition of Tier 1 capital for the bank (Rs '000)

	Standalone		**Consolidated**	
	As at 31 March 2020	As at 31 March 2019	**As at 31 March 2020**	As at 31 March 2019
Capital	**44,991,660**	44,991,660	**46,454,507**	46,454,507
Eligible Reserves	**162,220,504**	156,037,756	**165,265,559**	158,843,975
– Capital reserves (excl. revaluation reserve)	**90,855,494**	90,855,495	**90,855,494**	90,855,494
– Statutory Reserves	**67,194,433**	60,250,370	**67,194,431**	60,250,370
– Specific Reserves	**3,244,721**	2,576,669	**3,244,721**	2,576,669
– Free Reserves	**–**	–	**3,045,057**	2,806,220
– Revaluation Reserves at a discount of 55 per cent	**925,856**	2,355,222	**925,856**	2,355,222
Less: Deductions from Tier I Capital	**(647,369)**	(138,215)	**(653,749)**	(151,075)
– Intangible asset	**(145,651)**	–	**(149,051)**	–
– Deferred Tax Asset ('DTA') (Note 1)	**–**	–	**(2,980)**	(12,860)
– Investment in subsidiaries in India	**(35)**	(35)	**(35)**	(35)
– Debit Value Adjustments (DVA)	**(501,683)**	(138,180)	**(501,683)**	(138,180)
– Defined Benefit Pension Fund Asset	–	–	–	–
Common Equity Tier I Capital	**206,564,795**	200,891,201	**211,066,317**	205,147,407
Additional Tier I Capital	**–**	–	**–**	–
Total Tier I Capital	**206,564,795**	200,891,201	**211,066,317**	205,147,407

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. 3,890,559 ('000)) is not deducted.

Basel III – Pillar 3 disclosures of India Branches for the year ended 31 March 2020 *(Continued)*

2 Capital Adequacy & Structure *(Continued)*

b. Capital Structure (*Continued)*

(ii) Tier 2 capital for the bank

(Rs. '000)

	Standalone		Consolidated	
	As at 31 March 2020	As at 31 March 2019	**As at 31 March 2020**	As at 31 March 2019
General Loss Provisions	**8,571,724**	4,775,169	**8,572,326**	4,804,155
Other Eligible Reserves	**4,112,839**	2,495,557	**4,112,839**	2,495,557
Investment Fluctuation Reserves	**12,176,040**	4,800,000	**12,176,040**	4,800,000
Total Tier II Capital (Note 1)	**24,860,603**	12,070,726	**24,861,205**	12,099,712

Note 1: There is no debt capital instrument and subordinated debt outstanding as at 31 March 2020 (previous year: Nil) included in Tier II Capital.

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

– Standalone and Consolidated

(Rs '000)

		Standalone		Consolidated	
		As at 31 March 2020	As at 31 March 2019	**As at 31 March 2020**	As at 31 March 2019
I.	**Capital required for Credit Risk**	**132,049,945**	110,797,552	**133,198,147**	112,093,628
	– For portfolios subject to Standardised approach	**132,049,945**	110,797,552	**133,198,147**	112,093,628
II.	**Capital required for Market Risk (Standard Duration Approach)**	**33,095,430**	25,976,177	**33,095,430**	25,976,177
	– Interest rate risk	**26,661,228**	19,992,130	**26,661,228**	19,992,130
	– Foreign exchange risk	**1,569,150**	1,588,950	**1,569,150**	1,588,950
	– Equity risk	**472,461**	392,467	**472,461**	392,467
	– Securitisation exposure	**4,392,591**	4,002,630	**4,392,591**	4,002,630
III.	**Capital required for Operational Risk (Basic Indicator Approach)**	**17,006,188**	16,065,991	**17,006,188**	16,065,991
	Total capital requirement (I + II + III)	**182,151,563**	152,839,720	**183,299,764**	154,135,796
	Total capital funds of the Bank	**231,425,396**	212,961,927	**235,927,522**	217,247,119
	Total risk weighted assets	**1,436,526,519**	1,190,340,501	**1,444,181,198**	1,198,981,007
	Total capital ratio	**16.11%**	17.89%	**16.34%**	18.12%
	Common Equity Tier I Capital Ratio	**14.38%**	16.88%	**14.61%**	17.11%
	Tier I capital ratio	**14.38%**	16.88%	**14.61%**	17.11%

3. Credit risk

a. General

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

The principal objectives of our credit risk management function are:

- to maintain a strong culture of responsible lending, and a robust credit risk policy and control framework;
- to both partner and challenge our businesses in defining, implementing and continually re-evaluating our credit risk appetite under actual and stress scenario conditions; and
- to ensure there is independent, expert scrutiny of credit risks, their costs and their mitigation.

Strategy and Processes

HSBC Holdings plc formulates high-level risk management policies for the HSBC Group entities worldwide. The Bank has also formulated local credit guidelines consistent with HSBC policy and RBI guidelines. The Bank's risk management policies and procedures are subject to a high degree of oversight and guidance to ensure that all types of risk are systematically identified, measured, analyzed and actively managed. The Bank remains a full service bank, servicing all major business groups- Global Banking and Markets (GBM), Commercial Banking (CMB) and Retail Banking and Wealth Management (RBWM).

The Bank has standards, policies and procedures dedicated to the sanctioning, monitoring and management of various risks, which include the following:

- The Board of The Hongkong and Shanghai Banking Corporation Limited in 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.

Basel III – Pillar 3 disclosures of India Branches for the year ended 31 March 2020 *(Continued)*

3 Credit risk *(Continued)*

a. General *(Continued)*

Strategy and Processes *(Continued)*

- The RBWM Risk function is responsible for monitoring the quality of the Retail Banking and Wealth Management (RBWM) lending portfolio. For retail lending, INM has developed credit application scorecards (which make use of statistical models & historical data) 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 RBWM Chief Operating Office and functionally into the Regional CCS structure. FLOD underwriting decisions cases within the approved policy parameters whereas exceptions/deviation proposals are approved by the RBWM Risk Second Line of Defense (SLOD) underwriting team. Cases beyond the limit of Head-RBWM Risk are approved by the Retail Credit Committee (RCC).
- For retail risk, the INM RBWM Risk and Acquisition and Account Risk Management Team reviews and communicates the various internal risk policies. The RRPs (Risk reward program) defines the product parameters for RBWM.
- 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.
- 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 RBWM Risk delegates lending authority to the India RBWM Risk Head who, in turn, delegates the lending authority to underwriters in RBWM Risk and CCS. For certain customer types, the approval is granted either ASP Risk/ Group Risk basis the recommendation of India WMR. Relationship management of problem accounts or downgrades in certain internal ratings are transferred to LMU (Loan Management Unit) within Risk.

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

The Bank manages and directs credit risk management systems initiatives. HSBC has constructed a 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.

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.

The Hongkong and Shanghai Banking Corporation Limited – India Branches
(Incorporated in Hong Kong SAR with limited liability)

Basel III – Pillar 3 disclosures of India Branches for the year ended 31 March 2020 *(Continued)*

3 Credit risk *(Continued)*

b. Quantitative disclosures for portfolios under the Standardised approach

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

(Rs '000)

			As at 31 March 2020
	Fund based Note 1	**Non-fund based** Note 2	**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**

(Rs '000)

			As at 31 March 2019
	Fund based Note 1	Non-fund based Note 2	Total
Overseas	–	–	–
Domestic	944,385,293	509,711,156	1,454,096,449
Total	944,385,293	509,711,156	1,454,096,449

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.

(ii) Industry type distribution of exposures for the Bank 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**

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*

Industry type distribution of exposures as at 31 March 2019

(Rs '000)

Industry	Funded	Non-Funded	Total
Mining and Quarrying	–	29,019	29,019
Food Processing	5,973,540	1,372,767	7,346,307
Beverages (excluding Tea & Coffee) and Tobacco	394,101	1,128,156	1,527,732
Textiles	11,220,210	2,167,727	13,387,937
Leather and Leather products	97,450	32	97,482
Wood and Wood Products	1,180,199	62,600	1,242,799
Paper and Paper Products	4,018,401	736,736	4,527,952
Petroleum (non-infra), Coal Products (non-mining) and Nuclear Fuels	–	3,044,559	3,044,559

The Hongkong and Shanghai Banking Corporation Limited – India Branches
(Incorporated in Hong Kong SAR with limited liability)

Basel III – Pillar 3 disclosures of India Branches for the year ended 31 March 2020 *(Continued)*

3 Credit risk ***(Continued)***

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

Industry type distribution of exposures as at 31 March 2019

(Rs '000)

Industry	Funded	Non-Funded	Total
Chemicals and Chemical Products (Dyes, Paints, etc.)	52,597,477	27,302,023	79,921,993
Rubber, Plastic and their Products	14,024,325	4,731,238	18,748,603
Glass & Glassware	988,899	1,840,863	2,829,762
Cement and Cement Products	3,677,564	1,931,610	5,609,174
Basic Metal and Metal Products	16,695,673	6,250,587	22,946,260
All Engineering	59,108,064	55,790,511	115,127,881
Vehicles, Vehicle Parts and Transport Equipments	26,825,288	22,020,856	48,846,144
Gems and Jewellery	238	2,075	2,313
Construction	48,547	2,280,197	2,328,744
Infrastructure	42,593,467	29,565,387	71,205,248
NBFCs and trading	116,026,581	25,070,156	120,960,651
Banking and finance	145,419,530	123,406,616	241,595,344
Computer Software	3,097,619	13,593,660	16,691,279
Professional Services	33,798,767	126,223,663	133,582,028
Commercial Real Estate	99,952,320	3,476,533	102,542,395
Other Industries	76,098,982	44,735,874	196,459,081
Retail	105,314,506	12,947,711	118,262,217
Others*	125,233,545	–	125,233,545
Total	944,385,293	509,711,156	1,454,096,449

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

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

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**	**–**	**62,475,202**	**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**	**115,773,675**	**7,641,322**	**18,543,117**
TOTAL	**42,876,165**	**207,344,109**	**716,220,130**	**765,806,656**	**7,641,322**	**371,849,880**

As at 31 March 2019

(Rs '000)

	Cash & balances with RBI	Balance with Banks & Money at call & Short Notice	Investments	Advances	Fixed Assets	Other Assets
1 day	1,265,091	120,435,652	88,660,439	8,164,196	–	16,892
2 to 7 days	–	–	161,880,236	49,071,750	–	15,263,557
8 to 14 days	–	–	114,426,479	29,331,016	–	525,763
15 to 30 days	11,799,686	–	65,934,966	57,296,963	–	9,312,831
31 days & upto 3 months	6,721,929	–	70,638,027	89,032,890	–	22,430,557
Over 3 months and upto 6 months	2,986,331	–	24,956,064	48,475,503	–	27,646,117
Over 6 months and upto 1 year	2,478,603	–	36,840,982	44,465,416	–	27,699,734
Over 1 year and upto 3 years	2,001,478	5,186,625	66,377,837	89,023,799	–	65,058,986
Over 3 years and upto 5 years	2,496,313	5,878,175	16,164,519	105,304,486	–	25,012,239
Over 5 years	12,787,857	–	63,858,072	148,880,286	7,801,275	11,085,649
TOTAL	42,537,288	131,500,452	709,737,621	669,046,305	7,801,275	204,052,325

Basel III – Pillar 3 disclosures of India Branches for the year ended 31 March 2020 *(Continued)*

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

(Rs '000)

	As at 31 March 2020	As at 31 March 2019
Substandard	**2,529,194**	1,622,388
Doubtful 1	**416,818**	493,940
Doubtful 2	**860,223**	811,307
Doubtful 3	**2,136,738**	2,161,056
Loss	**750,293**	888,391
Total	**6,693,266**	5,977,082

(v) Net NPAs

The net NPAs are Rs. 1,262 million (previous year: Rs. 1,291 million). Please see table (vi) below.

(vi) Movement of NPAs for the bank

(Rs '000)

			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**

(Rs '000)

			As at 31 March 2019
	Gross NPA's	Provision	Net NPA
Opening balance as at 1 April 2018	9,242,663	7,802,562	1,440,101
Additions during the period	3,914,319	1,394,098	2,520,221
Reductions during the period	(7,179,900)	(4,510,748)	(2,669,152)
Closing balance as at 31 March 2019	5,977,082	4,685,912	1,291,170

(vii) NPA ratios for the bank

	As at 31 March 2020	As at 31 March 2019
Gross NPAs to gross advances	**0.87%**	0.89%
Net NPAs to net advances	**0.16%**	0.19%

(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 March 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

(Rs '000)

	As at 31 March 2020	As at 31 March 2019
Opening balance	**485,348**	1,062,084
Provisions during the year	–	–
Write offs during the year	–	–
Write back of excess provisions during the year	**(413,388)**	(576,736)
Closing balance	**71,960**	485,348

Basel III – Pillar 3 disclosures of India Branches for the year ended 31 March 2020 *(Continued)*

3 Credit risk *(Continued)*

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

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

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 of which:	**1,206,050**	**2,635,499**	**1,209,001**	**23,024**	**178,223**
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 of which:	**1,467,933**	**103,129**	**1,653,478**	**265,065**	**62,134**
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**

As at 31 March 2019

(Rs '000)

		NPA	Past Due Loans	Provision	Specific Provision during the year	Write off during the year
1.	Agriculture	**–**	**6,269**	**–**	**–**	**–**
2.	Advances to Industries sector of which:	**1,452,583**	**1,746,520**	**1,468,354**	**137,185**	**1,928,835**
2.1	Chemicals and Chemical Products	140,578	852,368	145,085	–	–
2.2	All Engineering	104,916	777,915	104,916	–	–
2.3	Infrastructure	601,057	–	612,325	137,121	16,271
2.4	Paper and Paper Products	282,090	17,887	282,090	–	1,773,646
2.5	Textile	323,939	16,050	323,938	–	87,118
3.	Services of which:	**1,712,231**	**173,159**	**1,515,639**	**163,662**	**828,347**
3.1	Trade	1,101,842	–	1,125,459	144,438	828,347
3.2	Commercial Real Estate	266,080	–	54,148	–	–
3.3	NBFC	68,796	–	89,035	7,923	–
4.	Retail	**2,812,268**	**2,112,357**	**1,701,919**	**1,093,249**	**834,847**
Total		**5,977,082**	**4,038,305**	**4,685,912**	**1,394,098**	**3,592,029**

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

(Rs '000)

	For the year ended 31 March 2020	For the year ended 31 March 2019
Write offs	**1,007,425**	892,737
Recoveries	**301,318**	359,527

(xiii) Ageing of past due loans for the bank

(Rs '000)

	As at 31 March 2020	As at 31 March 2019
Overdue less than 30 days	**4,468,545**	3,097,001
Overdue for 30 to 60 days	**488,093**	641,896
Overdue for 60 to 90 days	**235,393**	299,408
Total	**5,192,031**	4,038,305

Basel III – Pillar 3 disclosures of India Branches for the year ended 31 March 2020 *(Continued)*

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 March 2020

(Rs '000)

	NPA	**Past Due Loan**
Overseas	–	–
Domestic	**6,693,266**	**5,192,031**
Total	**6,693,266**	**5,192,031**

As at 31 March 2019

(Rs '000)

	NPA	Past Due Loan
Overseas	–	–
Domestic	5,977,082	4,038,305
Total	5,977,082	4,038,305

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) Infomerics

The Bank used the ratings issued by the ECAIs (for both long term and short term facilities) to risk weight both funded as well as non–funded exposures to corporate customers.

The process used by the Bank to transfer public issue ratings onto comparable assets in the banking book is in line with RBI Master Circular on Basel-III Capital Regulations dated 01 July 2015.

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:

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**	
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.

Basel III – Pillar 3 disclosures of India Branches for the year ended 31 March 2020 *(Continued)*

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

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		**Risk Weights%**
Level of Common Equity Tier 1 capital (CET1) including applicable capital conservation buffer (CCB) (%) of the investee bank (where applicable)	**Scheduled Bank**	**Other Banks**
Applicable Minimum CET1 + Applicable CCB and above	20%	100%
Applicable Minimum CET1 + CCB = 75% and <100% of applicable CCB	50%	150%
Applicable Minimum CET1 + CCB = 50% and <75% of applicable CCB	100%	250%
Applicable Minimum CET1 + CCB = 0% and <50% of applicable CCB	150%	350%
Minimum CET1 less than applicable minimum	625%	625%

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

a) Fitch Ratings;
b) Moodys; and
c) 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 31 March 2020	As at 31 March 2019
Below 100% risk weight	**1,322,831,438**	850,723,688
100% risk weight	**281,907,583**	426,431,527
Above 100% risk weight	**239,276,098**	144,947,618
Deductions*	**(647,369)**	(138,215)
Total	**1,843,367,750**	1,421,964,618

* 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 31 March 2020.*

5. Policy for Collateral Valuation and Management

The Bank has policies and manuals for collateral management and credit risk mitigation techniques, which include among other aspects guidelines on acceptable types of collateral, ongoing monitoring of collateral including the frequency and basis of valuation and application of credit risk mitigation techniques.

The Bank's approach when granting credit facilities is to do so on the basis of capacity to repay rather than placing primary reliance on credit risk mitigants. Depending on a customer's standing and the type of product, facilities may be provided unsecured. Mitigation of credit risk is a key aspect of effective risk management for the bank.

Where credit risk mitigation is available in the form of an eligible guarantee, the exposure is divided into covered and uncovered portions. The covered portion, which is determined after applying an appropriate 'haircut' for currency and maturity mismatch to the amount of the protection provided, attracts the risk weight of the protection provider. The uncovered portion attracts the risk weight of the obligor.

Basel III – Pillar 3 disclosures of India Branches for the year ended 31 March 2020 *(Continued)*

5. Policy for Collateral Valuation and Management *(Continued)*

All deeds of ownership/titles related to collateral are held in physical custody under control of executives independent of the business.

Valuation strategies are established to monitor collateral mitigants to ensure that they will continue to provide the anticipated secure secondary repayment source. For mortgages, the credit policy clearly outlines the acceptable Loan to value ratio (LVR) for different types of properties. The maximum LVR offered to customers has been capped at 80% for loans upto INR 7.5 Mn and 75% or lower for loans greater than INR 7.5 Mn. The valuation of property is initiated through a bank-empaneled valuer who is an expert on the subject matter. Additionally, as per the Bank's Risk Valuation Policy, in some cases where real estate is held as a security, dual valuations are initiated in order to have the benefit of a second opinion on the mortgaged property. Retail risk has a board-approved valuation policy which includes conditions when dual valuation is done. The disbursal of the loan is handled through an empaneled lawyer who in exchange collects the security documents from the borrower. In some scenarios security documents are also collected post disbursal and there is a framework in place for tracking and collecting these documents. The property documents thus collected are stored in central archives in a secure manner.

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

Main Types of Collateral taken by the Bank

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

The main types of recognised collateral taken by the Bank appear in the list of eligible financial collaterals advised in RBI Master circular on Basel III Capital Regulations issued in July 2015, and include cash on deposits and eligible debt securities. Further the main types of recognised collateral taken by the Bank for mortgages include plots of land, ready possession and under construction properties.

Main Types of Guarantor Counterparty and their Creditworthiness

As stated in Section 7.5.6 of the RBI's Master circular on Basel-III guidelines, certain guarantees are recognised for credit risk mitigation purposes. Where guarantees are direct, explicit, irrevocable, unconditional and meeting all operating guidelines prescribed by RBI, the Bank may take account of such credit protection in calculating capital requirements. The main types of guarantees are from Sovereigns, sovereign entities (including Bank for International Settlements (BIS), International Monetary Fund (IMF), European Central Bank and European Community as well as those Multilateral Development Banks (MDBs) referred to in paragraph 5.5 of the RBI's Master circular on Basel-III guidelines, Export Credit Guarantee Corporation of India Ltd (ECGC) and Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTSI), Credit Guarantee Fund Trust for Low Income Housing (CRGFTLIH)), banks and primary dealers with a lower risk weight than the counterparty. Other entities that are externally rated are also eligible guarantors, except when credit protection is provided to a securitisation exposure. This would include credit protection provided by parent, subsidiary and affiliate companies when they have a lower risk weight than the obligor.

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

The quantum of the credit portfolio which benefits from financial collaterals and/or guarantees as credit risk mitigants is an insignificant portion of the customer advances of the Bank.

The total exposure (including non-funded post Credit Conversion Factors) that is covered by eligible financial collateral and eligible Guarantees is as below

(Rs '000)

	As at 31 March 2020	As at 31 March 2019
Exposure covered by Financial Collaterals	**57,327,282**	31,993,616
Exposure covered by Guarantees	**44,895,920**	39,956,138

6. Securitisation disclosure for Standardised approach

The Bank acts as originator, servicer and investor in securitisation transactions. The Bank's strategy is to use securitisation to diversify our sources of funding for asset origination, capital efficiency, managing liquidity and meet the priority sector lending (PSL) requirements. The Bank also undertakes 'purchase' transactions through the direct assignment route.

The Bank participates in securitisation transactions in any or all of the following roles:

- Originator: The Bank uses Special Purpose Vehicle (SPV) to securitise customer loans and advances that we have originated, in order to diversify our sources of funding for asset origination and for capital efficiency purposes. In such cases, we transfer the loans and advances to the SPVs for cash, and the SPVs issue debt securities to investors to fund the cash purchases. Credit enhancements to the underlying assets may be used to obtain investment grade ratings on the senior debt issued by the SPVs.
- Servicer: For sold assets, the Bank undertakes the activity of collections and other servicing activities such as managing collections and monthly payouts to investors/assignee with respect to the underlying assets.
- Investor: The Bank invests in Pass through certificates (PTCs) primarily to meet its priority sector lending requirements. We have exposure to third-party securitizations which are reported as investments. These securitisation positions are managed by a dedicated team that uses a combination of market standard systems and third party data providers to monitor performance and manage market and credit risks.

Basel III – Pillar 3 disclosures of India Branches for the year ended 31 March 2020 *(Continued)*

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

Valuation of securitisation positions

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

Securitisation accounting treatment

The accounting treatment applied is as below:

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

Securitisation regulatory treatment

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

ECAI's used

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

a) Credit Analysis and Research Limited (CARE)
b) CRISIL Limited
c) India Ratings and Research Private Limited (FITCH)
d) ICRA Limited
e) Brickwork Ratings India Pvt Limited
f) ACUITE
g) Infomerics

Details of Securitisation trades of the Bank

(i) Details of securitisation of standard assets

The Bank has not Securitised any standard assets in the current year (previous year: Nil)

The RBI issued addendum guidelines on securitisation of standard assets vide its circular dated 7 May2012, subsequent to this date the Bank has not originated any securitisation transaction.

(ii) Securitisation of impaired/past due assets

The Bank has not Securitised any impaired/past due assets (previous year: Nil).

(iii) Loss recognised on securitisation of assets

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

(iv) Securitisation exposures retained or purchased

The Bank has made investments in Pass Through Certificates (PTCs) of Rs. 94,754 million as at 31 March 2020 (previous year: Rs. 85,703 million) which are classified under Available for Sale category. These attracts a capital charge of 1.8% equivalent to a risk weight of 23% since these are AAA rated instruments. PTC's where underlying exposure is CRE the capital charge of 9% is applicable equivalent to risk weight of 113%.

Aggregate amount of securitisation exposures retained or purchased and the associated capital charge, broken down between exposures and further broken down into different risk weight bands for each regulatory capital approach

Securitisation exposures broken down into different risk weight bands as at 31 March 2020

(Rs. '000)

Risk weight bands	Exposure type	Exposure	Capital charge
Less than 100%	Vehicle/Auto loans	92,735,156	1,700,150
At 100%	Vehicle/Auto loans	–	–
More than 100%	Vehicle/Auto loans	–	–
Total		**92,735,156**	**1,700,150**

(Rs. '000)

Risk weight bands	Exposure type	Exposure	Capital charge
Less than 100%	Housing loan	2,961,585	56,231
At 100%	Housing loan	–	–
More than 100%	Housing loan	115,280	10,375
Total		**3,076,865**	**66,606**

Basel III – Pillar 3 disclosures of India Branches for the year ended 31 March 2020 *(Continued)*

7. Market risk in trading book

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

Market risk is the risk that movements in market factors, including foreign exchange rates, interest rates, credit spreads and equity prices will reduce our income or the value of our portfolios. Market risk arises on financial instruments, which are measured at fair value in the trading book.

Strategy and Processes

The Bank maintains capital for market risk on Trading book which comprises of Held for Trading (HFT) and Available for Sale (AFS). HFT book includes positions arising from market-making customer demand driven inventory. AFS book includes positions that arise from the interest rate management of the Bank's retail/ commercial banking assets/ liabilities and financial investments designated as AFS and held-to-maturity.

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

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

Structure and Organisation of management of risk

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

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

Scope and nature of risk measurement, reporting and monitoring

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

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

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

Market Risk Limits are proposed by Local Global Markets. The Local Market Risk function reviews the market risk limits and provides its endorsement as appropriate to the Regional Market Risk Management for approval. After regional concurrence, the proposed mandates are tabled to INM EXCO for approval. Upon approval, the limits are formally delegated by the CEO to the Head of Global Markets, who in turns delegates limits to its different Front office desks. These limits are monitored daily by the Bank's Market Risk Management function through system reports and advised to senior management on an ongoing basis. Any breaches in the internal and regulatory market risk limits set as part of internal risk policy is reported to the senior management immediately and is also tabled at the RMM and EXCO for discussion.

Market risk charge is computed on net basis for cases where an underlying of same notional is purchased/sold to hedge the risk of the derivative contract

(i) Capital requirements for market risk for the bank

(Rs '000)

Standardised Duration Approach	As at 31 March 2020	As at 31 March 2019
Interest rate risk	**26,661,228**	19,992,130
Foreign exchange risk	**1,569,150**	1,588,950
Equity risk	**472,461**	392,467
Securitisation exposure	**4,392,591**	4,002,630
Capital requirements for market risk	**33,095,430**	25,976,177

8. Operational risk/Non-Financial Risk

Non-financial risk is the risk of loss resulting from people, inadequate or failed internal processes, data or systems, or external events. These risks arise during our day-to-day operations, while taking financial risks. Non-financial risks may have an impact on our management of financial risks, **Purpose and Risk management approach**

The HSBC Risk Management Framework ("RMF") supports our Global Principles. The Global Principles guide all that we do at HSBC, embodied in our strategy, our values, how we conduct our business, and how we manage risk.

Compliance with the Global Principles and the RMF is mandatory. Compliance exceptions require the approval of the Group Chief Executive and mitigating actions must be established to address any gaps.

The RMF describes our approach to managing risk. It is applicable to all employees. The RMF is governed by the Risk Management Meeting.

The RMF applies to all the types of risk that we face in our business and operational activities. It is used throughout the Group, including all subsidiaries, jurisdictions, Global Businesses, Functions and HSBC Operations Services and Technology ("HOST").

Basel III – Pillar 3 disclosures of India Branches for the year ended 31 March 2020 *(Continued)*

8. Operational risk/Non-Financial Risk *(Continued)*

The RMF is designed to ensure we:

- Manage risk in the same way across the Group
- Have a strong risk culture: managing risk is simply part of how we work
- Are aware of risks, identify our material risks and take better decisions as a result
- Have sufficient controls in place to ensure we only take the right type and amount of risk to grow our business safely and within our appetite
- Deliver fair outcomes for customers and maintain the orderly and transparent operation of financial markets

The RMF is supported by supplementary guidance, detailed user guides, and training materials, which are targeted to specific risk roles.

Active risk management helps us to achieve our strategy, serve our customers and communities, and grow our business safely.

Our risk management approach follows five steps: 1) define and enable, 2) identify and assess, 3) manage, 4) aggregate and report, and 5) govern.

Risk management starts with a strong risk culture, clear accountability, and a formally-defined risk appetite that articulates the level and types of risks the Group accepts to achieve our strategic objectives. Our Risk Appetite shapes our requisite controls and dictates risk behaviours. We identify risks to our business and assess their materiality by considering their likelihood and potential customer, financial, reputational and regulatory impacts, as well as market conduct and competition outcomes. We manage these risks through a combination of limits and controls to ensure risks are within our appetite. We then aggregate and report risk data to highlight material risks and support good decision making. Where necessary, these risks are escalated to senior management and risk governance committees to facilitate management decisions, challenge and remediation.

Structure and Organisation

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

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

Three Lines of Defence (3LOD) Overview

The three Lines of Defence ("LOD") model is used to define roles and responsibilities within HSBC. The activity-based model delineates accountabilities and responsibilities for risk management and the control environment within each LOD. The model applies to all individuals and all risk types, and supports the delivery of conduct outcomes.

There must be a clear segregation between risk ownership (First LOD), risk oversight and stewardship (Second LOD) and independent assurance (Third LOD) to help support effective identification, assessment, management, and reporting of risks. It is our activities, not our job titles, which determine where we sit in the three LOD model.

Global Functions may have responsibilities across both the First and Second LODs, and therefore must segregate these responsibilities across teams. At an appropriate level of seniority (normally executive committee member level or their direct reports), a single individual may have responsibilities across the First and Second LOD.First Line of Defence.

The First LOD has ultimate ownership for risk and controls and delivering fair conduct outcomes. The First LOD includes three key roles: Risk Owners, Control Owners and Chief Control Officers.

Risk Owners are accountable for identifying, assessing, managing and reporting key existing and emerging risks that they own for their business or function in line with the risk appetite set by the Board. Their key responsibilities include:

1. Actively identifying and understanding key existing and emerging risks they own.
2. Operating within the stated risk appetite, or outside of risk appetite with an agreed plan for moving back into tolerance.
3. Ensuring that front to back processes underpinning their business activities are robust, understood and include effective controls to manage the risks inherent within the activities for which they are accountable.
4. Understanding key controls that mitigate their risks, and are able to evidence that the Control Owners have a plan to monitor appropriately (including those controls performed outside of their area, e.g. HOST, third parties).
5. Monitoring and assessing their risk exposure over time.
6. Responsible for assessing, identifying and understanding the conduct impacts across the risk types they own and identifying and understanding the controls they rely on to support the delivery of fair conduct outcomes.
7. Escalating risks through governance when they are outside of appetite or there is an emerging threat or theme.
8. Remediation of control gaps in a prioritised and timely manner.
9. Clearly articulating and documenting their key risks, key controls, remediation and mechanisms they use to manage their risk.
10. Being able to explain and evidence their risks, key controls, what is being done to fix key controls or otherwise mitigate inherent risks if key controls are not working effectively, and the mechanisms they use to manage their risks.

Control Owners are accountable for operating controls on behalf of Risk Owners, and for the control monitoring processes to assess and report control effectiveness. Their key responsibilities include:

1. Understanding the inherent risks to be mitigated.
2. Designing and implementing key controls (and understanding and documenting how they prevent/mitigate/detect the risk).
3. Defining and implementing mechanisms to monitor and assess their control effectiveness (e.g. key indicators, exception reports, alerts).
4. Promptly escalating control weaknesses and gaps to the Risk Owner(s), including how and when they will be fixed.
5. Fixing controls that are not designed or working effectively in a timely manner. Being able to explain and evidence how their key controls operate; whether they are working effectively and supporting the delivery of the conduct outcomes; how they monitor their controls and what is being done to fix key controls if they are not working effectively.

Basel III – Pillar 3 disclosures of India Branches for the year ended 31 March 2020 *(Continued)*

8. Operational risk/Non-Financial Risk *(Continued)*

Chief Control Officers are accountable for driving the effective governance and management of non-financial risks in the First LOD. Their key responsibilities include:

1. Promote accountable risk and control decision-making based on quality data and commercial analysis
2. Enable the business to clearly, consistently and comprehensively articulate the risk profile of the business/service/process including the integrity of processes and controls
3. Support Risk and Control Owners in identifying anomalies in control effectiveness or the aggregation of risks that may take the risk profile of the business outside of tolerance
4. Assess and promote improvements to the Accountability, Roles and Responsibilities matrix for a given set of activities
5. Support Risk Owners through proactive advice based on risk and control knowledge and insights and present risk management solutions where appropriate
6. Identify trends to anticipate future developments in the risk and control environment
7. Actively challenge poor, inefficient or excessive controls, related tasks and behaviours
8. Challenge Control Owners on the design and implementation of control monitoring to confirm it is fit for purpose
9. Drive the development and implementation of future-fit risk management frameworks, in collaboration with Risk Stewards and taking regulatory requirements into account
10. Promoting desired behaviours and a positive risk culture, and supporting the delivery of the conduct outcomes.

Second Line of Defence

The Second LOD review and challenge the First LOD's activities to help ensure that risk management decisions and actions are appropriate, within risk appetite and support the delivery of conduct outcomes. The Second LOD is independent of the risk-taking activities undertaken by the First LOD and includes CROs, Risk Stewards and the Operational Risk function.

The Operational Risk function provides direction, insight and challenge on the management of non-financial risks, along with an overall assessment of the non-financial risk exposure versus Board appetite.Risk Stewards sit within the Global Functions. They are subject matter experts who set policies and oversee the First LOD activities by risk type. There are Global Business, Regional and Country Risk Stewards throughout the organisation who execute the responsibilities cascaded to them by the Global Risk Steward, as well as local requirements. Where there is no Risk Steward in Country, the Regional Risk Steward retains responsibility. Where there is no Risk Steward in Region, then the Global Risk Steward retains responsibility.

Risk Stewards are accountable for setting policy and control standards to manage risks, providing advice and guidance to support these policies, and challenging the First LOD to ensure it is managing risk effectively. Their key responsibilities include:

1. Provide subject matter expertise, advice, guidance, and effective challenge to the Risk and Control Owners
2. Support in setting the Risk Appetite, and oversee risk appetite monitoring
3. Write, own and monitor compliance with a comprehensive set of clear and concise policies that outline the key principles and minimum requirements applicable to the management of their risk
4. Report on the risk and control profile, including impacts of external environment changes, emerging risks and changes to the business strategy
5. Work with the business to understand the impact of emerging risks that require changes to controls, resources and business operations to ensure they remain within appetite
6. Overseeing, escalating and providing guidance on the identification of conduct impacts across their risk types and activities owned by the First LOD, including where control weaknesses and risk events impact the delivery of fair outcomes
7. Define the Risk and Control Library, including minimum control standards, with input from Risk Owners, and Control Owners, specifying key risks and key controls and providing guidance on continuous monitoring expectations
8. Recommend Risk and Control Assessment ("RCA") scoping, and challenge where this is not appropriately applied in the RCA
9. Challenge Risk and Control Owners on risk and control management, including inherent risk, residual risk, control effectiveness ratings, issues, actions and events

Third Line of Defence

Third LOD is Internal Audit. Internal Audit provides independent assurance to management and the non-executive Risk and Audit Committees that our risk management, governance and internal control processes are designed and operating effectively.

Scope and Nature of Risk reporting

Risk reporting enables senior management and stakeholders to make informed decisions by providing insightful analysis from accurate and timely data together with subject matter expert perspectives from across the Three LOD. Risk reporting helps senior management to understand what the top risks are and if they are managed within risk appetite. It also provides visibility of common themes and systemic issues across the organisation, which enables us to manage risks more proactively and effectively.

In order to provide a consistent end-to-end view of risk management across the Global Businesses, Functions, Regions, Countries and legal entities, risk reporting is based on key principles:

- Data is recorded timely and accurately in the appropriate system of record
- Data is aggregated into meaningful risk information and consistently reported through governance committees
- Risk information is used by the business to make better decisions

Risk data aggregation and reporting must be in line with all relevant FIMs and legislation/regulation including "Principles for effective risk data aggregation and risk reporting" published by the Basel Committee on Banking Supervision in 2013. Risk reporting procedures should include the identification of relevant data quality issues, limitations and issues identified through appropriate validation checks and resolved.

HSBC meets local and global regulatory risk reporting requirements and makes sufficient public disclosures of how it manages risk. All risk reporting disclosed to supervisory and regulatory authorities are subject to quality assurance. A regular report on non-financial risk is made to the Bank's senior management through the RMM.

(i) Capital requirements for Operational risk for the Bank

(Rs '000)

	As at 31 March 2020	As at 31 March 2019
Capital required for Operational Risk (Basic Indicator Approach)	**17,006,188**	16,065,991

Basel III – Pillar 3 disclosures of India Branches for the year ended 31 March 2020 *(Continued)*

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

Interest rate risk in the banking book (IRRBB) refers to the current or prospective risk to the bank's capital and earnings arising from adverse movements in interest rates that affect the bank's banking book positions. When interest rates change, the present value and timing of future cash flows change. This in turn changes the underlying value of a bank's assets, liabilities and off-balance sheet items and hence its economic value. Changes in interest rates also affect a bank's earnings by altering interest rate-sensitive income and expenses, affecting its Net Interest Income (NII).

Asset, Liability & Capital Management (ALCM) is responsible for measuring and controlling IRRBB under the supervision of the Asset and Liability Management Committee (ALCO).

Its primary responsibilities are

- To define the rules governing the transfer of interest rate risk from the commercial bank to Balance Sheet Management (BSM);
- To ensure that all market interest rate risk that can be hedged is effectively transferred from the global businesses to BSM; and
- To define the rules and metrics for monitoring the residual interest rate risk in the global businesses.

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

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

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

Strategy and Process

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

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

Structure and Organisation

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

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

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

The Bank manages the interest rate risk arising from commercial banking activities in order to maximize the return commensurate with its capital base, without exposing the Bank to undue risk arising from movements in market interest rates.

(i) Impact on Economic Value of Equity(EVE)

Economic Value of Equity (EVE) measures the impact of 200 bps movement in interest rates on capital. When interest rates change, the present value and timing of future cash flows change. This in turn changes the underlying value of a bank's assets, liabilities and off-balance sheet items and hence its economic value.

(Rs in Million)

	As at 31 March 2020	As at 31 March 2019
Base		
Total EVE	**255,993**	282,982
Total Regulatory Capital	**231,425**	212,962
+200 bps		
EVE	**252,309**	260,092
EVE Sensitivity	**(3,684)**	(22,890)
EVE Sensitivity/Total Regulatory Capital	**1.59%**	10.75%
-200 bps		
EVE	**260,550**	308,155
EVE Sensitivity	**4,557**	25,173
EVE Sensitivity/Total Regulatory Capital	**1.97%**	11.82%
EVE Limit	**18.00%**	18.00%

(ii) Impact on Earnings (NII)

Changes in interest rates also affect a bank's earnings by altering interest rate-sensitive income and expenses, affecting its Net Interest Income (NII).

(Rs in Million)

	As at 31 March 2020	As at 31 March 2019
Projected NII for next 12 months	**69,380**	48,794
Parallel movement in yield curve		
+100 bps	**1,495**	(1,783)
-100 bps	**(1,727)**	2,104

Basel III – Pillar 3 disclosures of India Branches for the year ended 31 March 2020 *(Continued)*

10. Counterparty Credit Risk

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

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

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

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

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

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

Policies for securing collateral and establishing credit reserves

Despite these being a standard credit mitigant for OTC derivatives in most jurisdictions, market practice in this respect is still evolving in India. The bank has executed a few Credit Support Annexes (CSA’s) and is currently negotiating with some more counterparties.

The credit valuation adjustment (CVA) is an adjustment to the value of OTC derivative transaction contracts to reflect, within fair value, the possibility that the counterparty may default or migrate to a lower credit grade, and we may not receive the full market value of the transactions. The Bank calculates a separate CVA for each counterparty to which the bank has exposure. The adjustment aims to calculate the potential loss arising from the portfolio of derivative transactions against each third party, based upon a modeled expected positive exposure profile, including allowance for credit risk mitigants such as netting agreements and CSA’s.

The bank computes a CVA for its markets related off balance sheet exposures and takes it to the profit and loss account for financial reporting purposes. The same was implemented for capital adequacy purposes under Basel III in line with RBI Guidelines from quarter ending June 2014.

Wrong-way Risk exposures

Wrong-way risk is a form of concentration risk and arises when there is a strong correlation between the counterparty’s Probability of Default (PD) and the MTM value of the underlying transaction. The Bank uses a range of procedures to monitor and control wrong-way risk, including requiring prior approval before undertaking wrong-way risk transactions outside pre-agreed guidelines.

Central Counterparties

Whilst exchange traded derivatives have been cleared through central counterparties (‘CCP’s) for many years, recent regulatory initiatives designed to reduce systemic risk in the banking system are directing increasing volumes of OTC derivatives to be cleared through CCPs. The Bank has accordingly developed a risk appetite framework to manage risk on CCPs.

Impact of Credit Rating Downgrade

The Credit rating downgrade clause in an International Swaps and Derivatives Association (ISDA) Master Agreement is designed to trigger a series of events which may include the requirement to pay or increase collateral, the termination of transactions by the non-affected party, or assignment by the affected party, if the credit rating of the affected party falls below a specified level. At the Group level, we assess additional collateral requirements where credit ratings downgrade language affects the threshold levels within a collateral agreement.

The derivative exposure is calculated using Current Exposure Method (‘CEM’). The outstanding balances are given below:

(Rs ‘000)

Particulars	As at 31 March 2020		As at 31 March 2019	
	Notional	Current credit exposures	Notional	Current credit exposures
Currency Swaps	**316,492,298**	**32,176,806**	191,430,718	31,077,580
Forward Contracts	**2,070,517,713**	**109,838,523**	1,427,215,453	64,930,424
FX options	**334,256,372**	**21,644,337**	392,642,430	17,822,694
Interest rate options	**2,855,214**	**30,255**	430,298	7,314
Interest Rate swaps	**4,244,764,918**	**93,136,700**	2,925,987,777	47,576,077
Single currency Floating Floating	**51,149,540**	**38,821**	44,950,750	5,246
Forward Rate Agreements	**27,362,150**	**371,563**	3,220,000	56,039
Grand Total	**6,996,248,665**	**257,237,005**	4,940,926,676	161,475,374

Note: The above does not include Exposure to QCCP.

Basel III – Pillar 3 disclosures of India Branches for the year ended 31 March 2020 *(Continued)*

11. Leverage Ratio

The leverage ratio requirement was introduced into the Basel III framework as a non-risk-based limit, to supplement risk-based capital requirements. It aims to constrain the build-up of excess leverage in the banking sector. As per the Bi-Monthly Monetary policy committee held on 6th Jun 2019, RBI has advised banks to maintain the minimum leverage ratio at 3.5%. The bank's leverage ratio is calculated as per RBI guidelines as follows:

Leverage Common disclosure: (Rs in Million)

Sr No	Item	At 31 March 2020	At 31 March 2019
	On-balance sheet exposures		
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	**1,670,622**	1,604,453
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	**(647)**	(138)
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	**1,669,975**	1,604,315
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	**116,335**	56,708
5	Add-on amounts for PFE associated with all derivatives transactions	**419,137**	211,914
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework		–
7	Deductions of receivables assets for cash variation margin provided in derivatives transactions		–
8	Exempted CCP leg of client-cleared trade exposures		–
9	Adjusted effective notional amount of written credit derivatives		–
10	Adjusted effective notional offsets and add-on deductions for written credit derivatives		–
11	Total derivative exposures (sum of lines 4 to 10)	**535,472**	268,622
	Securities financing transaction exposures		–
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	**141,543**	30,907
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)		–
14	CCR exposure for SFT assets		–
15	Agent transaction exposures		–
16	Total securities financing transaction exposures (sum of lines 12 to 15)	**141,543**	30,907
	Other off-balance sheet exposures		
17	Off-balance sheet exposure at gross notional amount	**1,316,668**	1,194,514
18	Adjustments for conversion to credit equivalent amounts	**(913,305)**	(841,476)
19	Off-balance sheet items (sum of lines 17 and 18)	**403,363**	353,038
	Capital and total exposures		–
20	Tier 1 capital	**206,565**	200,891
21	Total exposures (sum of lines 3, 11, 16 and 19)	**2,750,353**	2,256,882
	Leverage ratio		
22	Basel III leverage ratio (per cent)	**7.51%**	8.90%

Comparison of accounting assets vs leverage ratio exposure measure:

(Rs in Million)

Sr No	Item	At 31 March 2020	At 31 March 2019
1	Total consolidated assets as per published financial statements	**2,111,738**	1,764,675
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	**–**	–
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	**–**	–
4	Adjustments for derivative financial instruments	**235,899**	139,307
5	Adjustment for securities financing transactions (i.e. repos and similar secured lending)	**–**	–
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	**403,363**	353,038
7	Other adjustments	**(647)**	(138)
	Total Exposure (point 21 in Table 1)	**2,750,353**	2,256,882

Note: The consolidated leverage ratio is 7.65% as on 31 March 2020.

HSBC

The Hongkong and Shanghai Banking Corporation Limited – India Branches
(Incorporated in Hong Kong SAR with limited liability)

Basel III – Pillar 3 disclosures of India Branches for the year ended 31 March 2020 *(Continued)*

12 Composition of Capital

(Rs in Million)

	Basel III common disclosure template	Basel-III Amounts	Basel-III Amounts under regulatory scope of consolidation	Reference with DF-13
	Common Equity Tier 1 capital: instruments and reserves			
1	Directly issued qualifying common share capital plus related stock surplus (share premium)	44,992	46,455	**A**
2	Retained earnings ***(incl. Statutory Reserves, Capital Reserves and Remittable Surplus retained for Capital to Risk-weighted Assets Ratio (CRAR))***	161,295	164,340	**B1+B2+B3+B4+ B5+B6+B7**
3	Accumulated other comprehensive income (and other reserves)	926	926	**C1*45%**
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	–	–	
	Public sector capital injections grandfathered until 1 January 2018			
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in Group CET1)	–	–	
6	Common Equity Tier 1 capital before regulatory adjustments	207,212	211,720	
	Common Equity Tier 1 capital: regulatory adjustments		–	
7	Prudential valuation adjustments	–	–	
8	Goodwill (net of related tax liability)	–	–	
9	Intangibles other than mortgage-servicing rights (net of related tax liability)	146	149	
10	Deferred tax assets	–	3	
11	Cash-flow hedge reserve	–	–	
12	Shortfall of provisions to expected losses	–	–	
13	Securitisation gain on sale	–	–	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	502	502	
15	Defined-benefit pension fund net assets	–	–	
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	–	–	
17	Reciprocal cross-holdings in common equity	–	–	
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	–	–	
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	–	–	
20	Mortgage servicing rights (amount above 10% threshold)	–	–	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	–	–	
22	Amount exceeding the 15% threshold	–	–	
23	of which: significant investments in the common stock of financial entities	–	–	
24	of which: mortgage servicing rights	–	–	
25	of which: deferred tax assets arising from temporary differences	–	–	
26	National specific regulatory adjustments[7] (26a+26b+26c+26d)	–	–	
26a	of which: Investments in the equity capital of the unconsolidated insurance subsidiaries	–	–	
26b	of which: Investments in the equity capital of unconsolidated non-financial subsidiaries[8]	–	–	
26c	of which: Shortfall in the equity capital of majority owned financial entities which have not been consolidated with the bank[9]	–	–	
26d	of which: Unamortised pension funds expenditures	–	–	
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	–	–	

Basel III – Pillar 3 disclosures of India Branches for the year ended 31 March 2020 *(Continued)*

12 Composition of Capital ***(Continued)***

(Rs in Million)

	Basel III common disclosure template	Basel-III Amounts	Basel-III Amounts under regulatory scope of consolidation	Reference with DF-13
28	**Total regulatory adjustments to Common equity Tier 1**	**647**	**654**	
29	**Common Equity Tier 1 capital (CET1)**	**206,565**	**211,066**	
	Additional Tier 1 capital: instruments	**–**	**–**	
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus (31+32)	–	–	
31	of which: classified as equity under applicable accounting standards (Perpetual Non-Cumulative Preference Shares)	–	–	
32	of which: classified as liabilities under applicable accounting standards (Perpetual debt Instruments)	–	–	
33	Directly issued capital instruments subject to phase out from Additional Tier 1	–	–	
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in Group AT1)	–	–	
35	of which: instruments issued by subsidiaries subject to phase out	–	–	
36	**Additional Tier 1 capital before regulatory adjustments**	**–**	**–**	
	Additional Tier 1 capital regulatory adjustments	–	–	
37	Investments in own Additional Tier 1 instruments	–	–	
38	Reciprocal cross-holdings in Additional Tier 1 instruments	–	–	
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	–	–	
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	–	–	
41	National specific regulatory adjustments (41a+41b)	–	–	
41a	Investments in the Additional Tier 1 capital of unconsolidated insurance subsidiaries	–	–	
41b	Shortfall in the Additional Tier 1 capital of majority owned financial entities which have not been consolidated with the bank	–	–	
42	Regulatory Adjustments Applied to Additional Tier 1 in respect of Amounts Subject to Pre-Basel III Treatment	–	–	
43	**Total regulatory adjustments to Additional Tier 1 capital**	**–**	**–**	
44	**Additional Tier 1 capital (AT1)**	**–**	**–**	
44a	**Additional Tier 1 capital reckoned for capital adequacy11**	**–**	**–**	
45	**Tier 1 capital (T1 = CET1 + AT1) (29 + 44a)**	**206,565**	**211,066**	
	Tier 2 capital: instruments and provisions	**–**	**–**	
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	–	–	
47	Directly issued capital instruments subject to phase out from Tier 2	–	–	
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in Group Tier 2)	–	–	
49	of which: instruments issued by subsidiaries subject to phase out	–	–	
50	Provisions (incl. eligible reserves)	24,861	24,861	D1+D2+D3+ C2*45%
51	**Tier 2 capital before regulatory adjustments**	**24,861**	**24,861**	
	Tier 2 capital: regulatory adjustments	**–**	**–**	
52	Investments in own Tier 2 instruments	–	–	
53	Reciprocal cross-holdings in Tier 2 instruments	–	–	

Basel III – Pillar 3 disclosures of India Branches for the year ended 31 March 2020 *(Continued)*

12 Composition of Capital *(Continued)*

(Rs in Million)

	Basel III common disclosure template	Basel-III Amounts	Basel-III Amounts under regulatory scope of consolidation	Reference with DF-13
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	–	–	
55	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	–	–	
56	National specific regulatory adjustments (56a+56b)	–	–	
56a	of which: Investments in the Tier 2 capital of unconsolidated subsidiaries	–	–	
56b	of which: Shortfall in the Tier 2 capital of majority owned financial entities which have not been consolidated with the bank	–	–	
	Regulatory Adjustments Applied To Tier 2 in respect of Amounts Subject to Pre-Basel III Treatment	–	–	
	of which:	–	–	
	of which:	–	–	
57	**Total regulatory adjustments to Tier 2 capital**	**–**	**–**	
58	**Tier 2 capital (T2)**	**24,861**	**24,861**	
58a	**Tier 2 capital reckoned for capital adequacy**	**24,861**	**24,861**	
58b	**Excess Additional Tier 1 capital reckoned as Tier 2 capital**		**–**	
58c	**Total Tier 2 capital admissible for capital adequacy (58a + 58b)**	**24,861**	**24,861**	
59	**Total capital (TC = T1 + T2) (45 + 58c)**	**231,425**	**235,928**	
	Risk Weighted Assets in respect of Amounts Subject to Pre-Basel III Treatment	–	–	
	of which:	–	–	
	of which:	–	–	
60	**Total risk weighted assets (60a + 60b + 60c)**	**1,436,527**	**1,444,181**	
60a	of which: total credit risk weighted assets	1,041,403	1,049,058	
60b	of which: total market risk weighted assets	261,005	261,005	
60c	of which: total operational risk weighted assets	134,118	134,118	
	Capital ratios		–	
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	14.38%	14.61%	
62	Tier 1 (as a percentage of risk weighted assets)	14.38%	14.61%	
63	Total capital (as a percentage of risk weighted assets)	16.11%	16.34%	
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation and countercyclical buffer requirements, expressed as a percentage of risk weighted assets)	**9.18%**	**9.18%**	
65	of which: capital conservation buffer requirement	1.88%	1.88%	
66	of which: bank specific countercyclical buffer requirement	–	–	
67	of which: G-SIB buffer requirement	1.80%	1.80%	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	8.88%	9.11%	
	National minima (if different from Basel III)	–	–	
69	National Common Equity Tier 1 minimum ratio (if different from Basel III minimum)	–	–	
70	National Tier 1 minimum ratio (if different from Basel III minimum)	–	–	
71	National total capital minimum ratio (if different from Basel III minimum)	–	–	
	Amounts below the thresholds for deduction (before risk weighting)	**–**	**–**	
72	Non-significant investments in the capital of other financial entities	–	–	
73	Significant investments in the common stock of financial entities	–	–	
74	Mortgage servicing rights (net of related tax liability)	–	–	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	4,772	4,775	
	Applicable caps on the inclusion of provisions in Tier 2	**–**	**–**	

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Basel III – Pillar 3 disclosures of India Branches for the year ended 31 March 2020 *(Continued)*

12 Composition of Capital *(Continued)*

(Rs in Million)

	Basel III common disclosure template	Basel-III Amounts	Basel-III Amounts under regulatory scope of consolidation	Reference with DF-13
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	11,242	11,266	**D1+D2**
77	Cap on inclusion of provisions in Tier 2 under standardised approach	13,018	13,018	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	–	–	
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	–	–	
	Capital instruments subject to phase-out arrangements (only applicable between March 31, 2017 and March 31, 2022)	**–**	**–**	
80	Current cap on CET1 instruments subject to phase out arrangements	–	–	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	–	–	
82	Current cap on AT1 instruments subject to phase out arrangements	–	–	
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	–	–	
84	Current cap on T2 instruments subject to phase out arrangements	–	–	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	–	–	

13. Composition of Capital – Reconciliation

(Rs in Million)

		Balance sheet as in financial statements	Balance sheet under regulatory scope of consolidation	Reference No
		As on reporting date	As on reporting date	DF-12
A	**Capital & Liabilities**			
i	Paid-up Capital	44,992	46,455	A
	Reserves & Surplus	213,627	216,696	
	a. Statutory Reserve	67,194	67,194	B1
	b. Capital Reserve - Surplus on sale of Immovable assets	5,675	5,675	B2
	c. Capital Reserves	13,262	13,278	B3
	d. Remittable surplus retained in India for CRAR purposes	71,919	71,919	B4
	e.(i). Revaluation Reserve eligible for Tier 1	2,058	2,058	C1
	e.(ii) Revaluation Reserve eligible for Tier 2	3,205	3,205	C2
	f. Investment Reserve	2,670	2,670	D1
	g. Specific Reserve	3,245	3,636	B5
	h. Investment Fluctation Reserve (refer to schedule 18 note 5.5)	12,176	12,176	D3
	i. Balance in Profit & Loss Account	32,223	32,925	
	j. General Reserve	–	23	B6
	k. Security Premium	–	1,935	B7
	Minority Interest	–	–	
	Total Capital	258,619	263,150	
ii	Deposits	1,249,030	1,249,030	
	of which: Deposits from banks	15,909	15,909	
	of which: Customer deposits	1,233,121	1,233,121	
	of which: Other deposits (pl. specify)	–	–	
iii	Borrowings	244,417	248,257	
	Borrowings in India	199,533	203,373	
	of which: From RBI	98,251	98,251	
	of which: From banks	–	–	
	of which: From other institutions & agencies	101,282	105,123	
	Borrowings outside India	44,884	44,884	
	of which: Others (pl. specify)	44,884	44,884	
	of which: Capital instruments	–	–	

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Basel III – Pillar 3 disclosures of India Branches for the year ended 31 March 2020 *(Continued)*

13. Composition of Capital – Reconciliation *(Continued)*

(Rs in Million)

		Balance sheet as in financial statements	Balance sheet under regulatory scope of consolidation	Reference No DF-12
iv	Other liabilities & provisions	359,672	359,714	
	of which: Provisions towards Standard Assets	8,572	8,596	D2
	Total Capital and Liabilities	**2,111,738**	**2,120,152**	
B	**Assets**			
i	Cash and balances with Reserve Bank of India	42,876	42,876	
ii	Balance with banks and money at call and short notice	207,344	207,951	
iii	Investments:	716,220	717,699	
	of which: Government securities	581,480	581,480	
	of which: Other approved securities	–	–	
	of which: Shares	136	136	
	of which: Debentures & Bonds	46,427	46,427	
	of which: Subsidiaries/Joint Ventures/Associates	0	0	
	of which: Others (Commercial Papers, Mutual Funds etc.)	88,177	88,177	
iv	Loans and advances	765,807	771,826	
	of which: Loans and advances to banks	35,015	35,015	
	of which: Loans and advances to customers	730,792	736,812	
v	Fixed assets	7,641	7,643	
vi	Other assets	371,850	372,157	
	of which: Goodwill and intangible assets	–	–	
	of which: Deferred tax assets	4,772	4,775	
vii	Goodwill on consolidation	–	–	
viii	Debit balance in Profit & Loss account	–	–	
	Total Assets	**2,111,738**	**2,120,152**	

14. Regulatory capital Instruments

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

15. Disclosure Requirements for Remuneration

In accordance with the requirements of the RBI Circular DOR.Appt.BC.No.23/29.67.001/2019-20 dated 4 November 2019, the Head office of the Bank has submitted a declaration to RBI that the Bank's compensation policies, including that of the CEO, is in conformity with the Financial Stability Board principles and standard on sound compensation practices.

16. Equities - Disclosure for Banking Book Positions

Investment in equity shares as at 31 March 2020 is Rs.136 million. This includes investment in shares of private limited companies held either for:

(i) business facilitation purpose;

(ii) acquired as part of Corporate Restructured Debt(CDR) package; or

(iii) in one instance investment in group subsidiary.

These investments are classified as 'Available for Sale'(AFS). All investments in equity shares are held in Unlisted limited companies. There are no quoted market prices for these securities. Accordingly, these are valued at lower of cost or break-up value basis the latest available balance sheet.

Quantitative Disclosures

1. The value of equity investments (unquoted) as at 31 March 2020 is Rs.136 million.
2. All equity investments are held in private limited companies.
3. The cumulative realised gain on sale of shares is Nil as at 31 March 2020.
4. The unrealised gain or loss recognised in the balance sheet and not through the profit and loss account is nil.
5. The break-up value of unquoted equity investment as at 31 March 2020 is Rs. 1,472 million. The difference between break-up value and current cost of equity investment is Rs. 1,336 million.
6. Investment in equity included in Tier 1 and Tier 2 capital – Nil.
7. These investments are risk weighted for capital adequacy purposes. The capital requirement for credit risk relating to these investments amounts to Rs.472 million.