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 of
The Hongkong and Shanghai Banking Corporation Limited – India Branches

Report on Audit of the Standalone Financial Statements

Opinion

We have audited the accompanying standalone financial statements of **The Hongkong and Shanghai Banking Corporation Limited – India Branches** ('the Bank'), which comprise the Balance Sheet as at March 31, 2022, the Profit and Loss Account and the Cash Flow Statement for the year then ended, and notes to the 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 standalone 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 are in conformity with accounting principles generally accepted in India and give a true and fair view of the state of affairs of the Bank as at March 31, 2022, and its profit and its cash flows for the year ended on that date.

Basis for Opinion

We conducted our audit of the standalone financial statements 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 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.

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 but does not include the standalone financial statements and our auditor's report thereon.

Our opinion on the standalone financial statements does not cover the other information and we do not express any form of assurance or 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. The other information is not made available to us at the date of the auditor's report.

Responsibilities of Management and Those Charged with Governance for the 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 and guidelines issued by the Reserve Bank of India ('RBI') from time to time. 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, 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 Management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

The Bank's 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 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 skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the 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 Companies Act, 2013, we are also responsible for expressing our opinion on whether the Bank has adequate internal financial controls system 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 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 financial statements, including the disclosures and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Materiality is the magnitude of the misstatements in the standalone financial statements that, individually or aggregate, makes it probable that the economic decisions of a reasonably knowledgeable user of the financial statements may be influenced. We consider quantitative materiality and qualitative factors in (i) planning of the scope of our audit work and evaluating the results of our work; and (ii) to evaluate the effect of any identified misstatement in the financial statements.

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.

Other Matter

The comparative financial statements of the Bank for the year ended March 31, 2021, were audited by another auditor who expressed an unmodified opinion on those financial statements vide their report dated June 29, 2021.

Our opinion is not modified in respect of this matter.

Report on Other Legal and Regulatory Requirements

1) The Balance Sheet, the Profit and Loss Account and the Cash Flow Statement have been drawn up in accordance with the provisions of section 29 of the Banking Regulation Act, 1949 and section 133 of the Companies Act, 2013.
2) As required by sub-section (3) of section 30 of the Banking Regulation Act, 1949, we report that:
   a) We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit and have found them to be satisfactory;
   b) The transactions of the Bank, which have come to our notice, have been within the powers of the Bank;
   c) During the course of our audit we have visited eight branches to examine the books of accounts and other records maintained at the branches 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 at the registered office in Mumbai as all the necessary records and data required for the purposes of our audit are available therein;
   d) The Profit and Loss Account shows a true balance of profit for the year then ended.
3) Further, 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 purpose 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 in 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 relevant rules issued thereunder, to the extent they are not inconsistent with the accounting policies prescribed by RBI;
   e) The requirements of section 164(2) of the Act are not applicable considering that the Bank is a branch of The Hongkong and Shanghai Banking Corporation Limited which is incorporated and registered in the Hongkong Special Administration Region with Limited Liability;
   f) With respect to the adequacy of the internal financial controls over financial reporting 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 the Banking Regulation Act, 1949. Accordingly, the requirements prescribed under section 197 of the Act 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 information and according to the explanations given to us:

   i) The Bank has disclosed the impact of pending litigations on its financial position in its standalone financial statements - Refer Note 12 and Note 5.3 of Schedule 18 to the standalone financial statements;

   ii) The Bank has made provision, as required under the applicable law or accounting standards, for material foreseeable losses, if any, on long-term contracts including derivative contracts - Refer Note 5.7(ae), (af) and (ag) of Schedule 18 to the standalone financial statements; and

   iii) There were no amounts which were required to be transferred to the Investor Education and Protection Fund by the Bank during the year ended March 31, 2022;

   iv) The Management has represented that:

      a) to the best of its knowledge and belief, other than as disclosed in the notes to the accounts, no funds have been advanced or loaned or invested (either from borrowed funds or share premium or any other sources or kind of funds) by the Bank to or in any other persons or entities, including foreign entities ("Intermediaries"), with the understanding, whether recorded in writing or otherwise, that the Intermediary shall, whether, directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Bank ("Ultimate Beneficiaries") or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries;

      b) to the best of its knowledge and belief, other than as disclosed in the notes to the accounts, no funds have been received by the Bank from any persons or entities, including foreign entities ("Funding Parties"), with the understanding, whether recorded in writing or otherwise, that the Bank shall, whether, directly or indirectly, lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Funding Party ("Ultimate Beneficiaries") or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries; and

      Based on such audit procedures that were considered reasonable and appropriate by us in the circumstances, nothing has come to our notice that has caused us to believe that the representations under subclause (a) and (b) contain any material misstatement.

   v) The Bank is a branch of The Hongkong and Shanghai Banking Corporation Limited which is incorporated and registered in the Hongkong Special Administration Region with Limited Liability, hence section 123 of the Companies Act, 2013, regarding compliance with dividend declared or paid during the year by the Bank does not arise.

For **K. S. AIYAR & Co.**
CHARTERED ACCOUNTANTS
Firm Registration No.: 100186W
Sd/-
Sachin A. Negandhi
PARTNER
Membership No.: 112888
UDIN: 22112888ALNLMM6537
Place: Mumbai
Date: June 23, 2022.

For **KALYANIWALLA & MISTRY LLP**
CHARTERED ACCOUNTANTS
Firm Registration No.: 104607W/W100166
Sd/-
Daraius Z. Fraser
PARTNER
Membership No.: 042454
UDIN: 22042454ALNOEL2380
Place: Mumbai
Date: June 23, 2022.

Annexure A to the Independent Auditor's Report

(Referred to in paragraph 3(f) under 'Report on Other Legal and Regulatory Requirements' section of our report of even date).

Report on the Internal Financial Controls with Reference to Financial Statements 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, 2022, in conjunction with our audit of the standalone 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 (the "Guidance Note") issued by the Institute of Chartered Accountants of India (ICAI). These responsibilities include the design, implementation and maintenance of adequate 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 Companies Act, 2013 (the "Act" or the "Companies Act").

Auditors' Responsibility

Our responsibility is to express an opinion on the Bank's internal financial controls with reference to financial statements based on our audit. We conducted our audit in accordance with the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting (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, both issued by the ICAI. 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 adequate internal financial controls with reference to 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 system with reference to 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 judgment, including the assessment of the risks of material misstatement of the 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 system with reference to 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 financial statements for external purposes in accordance with generally accepted accounting principles. A bank's internal financial control with reference to 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 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 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 financial statements to future periods are subject to the risk that the internal financial control with reference to 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, to the best of our knowledge and according to the explanations given to us, the Bank has, in all material respects, an adequate internal financial controls system with reference to financial statements and such internal financial controls with reference to financial statements were operating effectively as at March 31, 2022, 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 issued by the Institute of Chartered Accountants of India.

For **K. S. AIYAR & Co.**
CHARTERED ACCOUNTANTS
Firm Registration No.: 100186W

Sd/-
Sachin A. Negandhi
Partner
Membership No.: 112888
UDIN: 22112888ALNLMM6537

Place: Mumbai
Date: June 23, 2022.

For **KALYANIWALLA & MISTRY LLP**
CHARTERED ACCOUNTANTS
Firm Registration No.: 104607W/W100166

Sd/-
Daraius Z. Fraser
Partner
Membership No.: 042454
UDIN: 22042454ALNOEL2380

Place: Mumbai
Date: June 23, 2022.

HSBC

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

Balance Sheet as at 31 March 2022

(Currency: Indian rupees in thousands)

	Schedules	**As at 31 March 2022**	As at 31 March 2021
Capital and liabilities			
Capital	*1*	**44,991,660**	44,991,660
Reserves and surplus	*2*	**281,780,300**	249,662,076
Deposits	*3*	**1,854,817,497**	1,652,714,658
Borrowings	*4*	**121,022,697**	134,295,802
Other liabilities and provisions	*5*	**170,488,666**	217,794,099
Total		**2,473,100,820**	2,299,458,295
Assets			
Cash and balances with Reserve Bank of India	*6*	**279,140,398**	335,722,614
Balances with banks and money at call and short notice	*7*	**229,703,843**	182,577,595
Investments	*8*	**954,152,393**	834,942,600
Advances	*9*	**818,462,488**	716,730,742
Fixed assets	*10*	**7,400,876**	7,781,039
Other assets	*11*	**184,240,822**	221,703,705
Total		**2,473,100,820**	2,299,458,295
Contingent liabilities	*12*	**20,112,981,819**	17,300,384,906
Bills for collection		**257,055,097**	249,505,736
Significant accounting policies and notes to the Financial Statements	*18*		

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

Profit and Loss Account for the year ended 31 March 2022

(Currency: Indian rupees in thousands)

	Schedules	**For the year ended 31 March 2022**	For the year ended 31 March 2021
Income			
Interest earned	*13*	**131,298,495**	121,855,943
Other income	*14*	**11,711,989**	22,610,833
Total		**143,010,484**	144,466,776
Expenditure			
Interest expended	*15*	**43,707,984**	38,253,619
Operating expenses	*16*	**40,842,274**	39,519,655
Provisions and contingencies	*17*	**26,548,527**	30,374,395
Total		**111,098,785**	108,147,669
Net profit for the year		**31,911,699**	36,319,107
Profit brought forward		**54,078,584**	32,222,990
Total		**85,990,283**	68,542,097
Appropriations			
Transfer to Statutory Reserve		**8,071,881**	9,079,777
Transfer to Remittable Surplus retained in India for Capital to Risk-weighted Assets Ratio (CRAR) requirements		**16,390,446**	–
Transfer (from)/to Investment Reserve		**(2,700,287)**	30,115
Transfer to Specific Reserve		**912,139**	830,621
Transfer to Investments Fluctuation Reserve		**2,384,000**	4,523,000
Transfer to Capital Reserves - Surplus on sale of Immovable properties		**100,408**	–
Balance carried over to balance sheet		60,831,696	54,078,584
Total		**85,990,283**	**68,542,097**
Significant accounting policies and notes to the Financial Statements	*18*		

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

For **K S Aiyar & Co.**
Chartered Accountants
Firm Regn No: 100186W

Sd/-
Sachin A. Negandhi
Partner
Membership No: 112888

For **Kalyaniwalla & Mistry LLP**
Chartered Accountants
Firm Regn No: 104607W/W100166

Sd/-
Daraius Z. Fraser
Partner
Membership No: 042454

For **The Hongkong and Shanghai Banking Corporation Limited - India Branches**

Sd/-
Amitabh Nevatia
Chief Financial Officer

Sd/-
Hitendra Dave
Chief Executive Officer

Mumbai
23 June 2022

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 2022

(Currency: Indian rupees in thousands)

		For the year ended 31 March 2022	For the year ended 31 March 2021
Cash flow from operating activities			
Net profit before taxes		**57,190,318**	64,879,429
Adjustments for:			
Depreciation on fixed assets		**709,149**	766,654
Provision / (Release) for depreciation on investments		**16,892,029**	(71,295)
Provision for advances		**1,085,315**	1,433,761
Other provisions		**184,593**	380,312
Profit on sale of fixed assets		**(80,546)**	–
		75,980,858	67,388,861
Adjustments for:			
Increase in investments		**(136,101,822)**	(118,651,175)
(Increase) / Decrease in advances		**(103,448,676)**	45,790,964
Increase in deposits		**202,102,839**	404,184,892
Decrease in other assets		**43,011,784**	145,465,860
(Decrease) in other liabilities and provisions		**(46,835,210)**	(140,317,069)
		(41,271,085)	336,473,472
Direct taxes paid (Net)		**(30,878,078)**	(24,473,948)
Net cash from operating activities	*(A)*	**3,831,695**	379,388,385
Cash flow from investing activities			
Purchase of fixed assets		**(850,052)**	(1,186,898)
Proceeds from sale of fixed assets		**835,494**	–
Net cash used in investing activities	*(B)*	**(14,558)**	(1,186,898)
Cash flow from financing activities			
Decrease in borrowings (Net)		**(13,273,105)**	(110,121,552)
Net cash used in financing activities	*(C)*	**(13,273,105)**	(110,121,552)
Net increase in cash and cash equivalents	*(A) + (B) + (C)*	**(9,455,968)**	268,079,935
Cash and cash equivalents as at 1 April		**518,300,209**	250,220,274
Cash and cash equivalents as at 31 March		**508,844,241**	518,300,209

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 **K S Aiyar & Co.**
Chartered Accountants
Firm Regn No: 100186W

Sd/-
Sachin A. Negandhi
Partner
Membership No: 112888

For **Kalyaniwalla & Mistry LLP**
Chartered Accountants
Firm Regn No: 104607W/W100166

Sd/-
Daraius Z. Fraser
Partner
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For **The Hongkong and Shanghai Banking Corporation Limited - India Branches**

Sd/-
Amitabh Nevatia
Chief Financial Officer

Sd/-
Hitendra Dave
Chief Executive Officer

Mumbai
23 June 2022

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 2022

(Currency: Indian rupees in thousands)

	As at 31 March 2022	As at 31 March 2021
1 Capital		
I Amount of deposit kept with the Reserve Bank of India under Section 11(2) (b) of the Banking Regulation Act, 1949.	**77,500,000**	67,500,000
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	**76,274,208**	67,194,431
Additions during the year	**8,071,881**	9,079,777
	84,346,089	76,274,208
II **Capital Reserves – Surplus on sale of Immovable properties**		
Opening balance	**5,674,609**	5,674,609
Transfer on Sale of Property	**100,408**	–
Transfer from Revaluation Reserve	**671,911**	–
	6,446,928	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**	71,919,320
Add : Transfer from profit and loss account *(refer to schedule 18 note 5.1)*	**16,390,446**	–
	88,309,76	71,919,320
V **Revaluation Reserve**		
Opening balance	**4,979,121**	5,263,384
Less : Transfer to Capital Reserve on account of Sale of Property	**(671,911)**	–
(Less)/Add: Revaluation of premises net of depreciation on revaluation uplift	**206,525**	(284,263)
	4,513,735	4,979,121
VI **Investment Reserve**		
Opening balance	**2,700,287**	2,670,172
Transfer (To) / From the Profit and Loss account	**(2,700,287)**	30,115
	–	2,700,287
VII **Specific Reserve** *(refer to schedule 18 note 5.4)*		
Opening balance	**4,075,342**	3,244,721
Additions during the year	**912,139**	830,621
	4,987,481	4,075,342
VIII **Investment Fluctuation Reserve** *(refer to schedule 18 note 5.5)*		
Opening balance	**16,699,040**	12,176,040
Additions during the year	**2,384,000**	4,523,000
	19,083,040	16,699,040
IX **Balance in Profit and Loss Account**	**60,831,696**	54,078,584
TOTAL (I+II+III+IV+V+VI+VII+VIII+IX)	**281,780,300**	249,662,076

	As at 31 March 2022	As at 31 March 2021
3 Deposits		
A. I. **Demand Deposits**		
i) From banks	**5,193,488**	6,398,022
ii) From others	**607,728,315**	459,260,922
Total i) and ii)	**612,921,803**	465,658,944
II. **Savings Bank Deposits**	**179,250,240**	159,807,685
III. **Term Deposits**		
i) From banks	**6,636,478**	6,207,788
ii) From others	**1,056,008,976**	1,021,040,241
Total i) and ii)	**1,062,645,454**	1,027,248,029
TOTAL (I+II+III)	**1,854,817,497**	1,652,714,658
B. I. Deposits of branches in India	**1,854,817,497**	1,652,714,658
II. Deposits of branches outside India	**–**	–
TOTAL (I+II)	**1,854,817,497**	1,652,714,658
4 Borrowings		
I **Borrowings in India**		
i) Reserve Bank of India	**–**	–
ii) Other banks	**–**	–
iii) Other institutions and agencies	**114,269,191**	131,401,304
iv) Subordinated debt	**–**	–
Total i), ii), iii) and iv)	**114,269,191**	131,401,304
II **Borrowings outside India**	**6,753,506**	2,894,498
TOTAL (I+II)	**121,022,697**	134,295,802
Secured borrowings included in I and II above	**104,348,941**	123,632,704
5 Other liabilities and provisions		
I Bills payable	**3,537,415**	2,007,052
II Inter-office adjustments (net)	**–**	–
III Interest accrued	**9,608,707**	8,511,123
IV Provision towards standard assets *(refer to schedule 18 Note 5.7 (o))*	**7,352,148**	6,720,534
V Others (including provisions)	**149,990,396**	200,555,390
TOTAL (I+II+III+IV+V)	**170,488,666**	217,794,099
6 Cash and balances with Reserve Bank of India		
I Cash in hand and in ATMs (including foreign currency notes)	**1,406,235**	1,711,297
II Balances with the Reserve Bank of India		
i) In current account	**94,194,163**	69,171,317
ii) In other accounts	**183,540,000**	264,840,000
Total i) and ii)	**277,734,163**	334,011,317
TOTAL (I+II)	**279,140,398**	335,722,614

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 2022

(Currency: Indian rupees in thousands)

	As at 31 March 2022	As at 31 March 2021
7 Balances with banks and money at call and short notice		
I In India		
i) Balances with banks		
a) in current accounts	**4,212,126**	2,813,857
b) in other deposit accounts	**6,442,362**	6,214,350
Total a) and b)	**10,654,488**	9,028,207
ii) Money at call and short notice		
a) with banks	**–**	–
b) with other institutions	**74,860,065**	45,204,349
Total a) and b)	**74,860,065**	45,204,349
Total i) and ii)	**85,514,553**	54,232,556
II Outside India		
i) In current accounts	**3,959,863**	4,058,039
ii) In other deposit accounts	**–**	–
iii) Money at call and short notice	**140,229,427**	124,287,000
Total i), ii) and iii)	**144,189,290**	128,345,039
TOTAL (I+II)	**229,703,843**	182,577,595
8 Investments		
I. Investments in India in *(refer to schedule 18 note 5.7 (d))*		
i) Government securities	**747,340,996**	710,272,221
ii) Other approved securities	**–**	–
iii) Shares	**136,100**	136,100
iv) Debentures and bonds	**34,156,834**	22,070,853
v) Subsidiaries and/or joint ventures	**501**	275
vi) Others (CDs, CPs, Pass Through Certificates etc)	**70,395,198**	69,563,738
Total i), ii), iii), iv), v) and vi)	**852,029,629**	802,043,187
II. Investments outside India in *(refer to schedule 18 note 5.7 (d))*		
i) Government securities	**102,122,764**	32,899,413
TOTAL (I+II)	**954,152,393**	834,942,600
9 Advances*		
A. i) Bills purchased and discounted	**94,568,695**	106,155,608
ii) Cash credits, overdrafts and loans repayable on demand	**305,663,496**	210,357,686
iii) Term loans	**418,230,297**	400,217,448
Total i), ii) and iii)	**818,462,488**	716,730,742
B. i) Secured by tangible assets (including advances against book debt)	**399,823,744**	341,956,438
ii) Covered by Bank / Government guarantees	**32,104,548**	30,849,673
iii) Unsecured	**386,534,196**	343,924,631
TOTAL i), ii) and iii)	**818,462,488**	716,730,742

	As at 31 March 2022	As at 31 March 2021
CI. Advances in India		
i) Priority sectors	**135,003,906**	126,807,755
ii) Public sector	**31,524,907**	16,525,000
iii) Banks	**–**	–
iv) Others	**651,933,675**	573,397,987
TOTAL i), ii), iii) and iv)	**818,462,488**	716,730,742
CII. Advances ouside India	**–**	–
TOTAL CI and CII	**818,462,488**	716,730,742
* Net off Interbank Participation Certificate (IBPC) of Rs.116,481 million with risk participation (previous year: Rs 44,187 million)		
10 Fixed Assets		
I Premises (including leasehold improvements) *(refer to schedule 18 note 5.2)*		
Cost at 1 April (including revaluation)	**8,538,181**	9,129,662
Additions during the year	**105,884**	312,249
Revaluation of premises during the year	**214,969**	(347,119)
Deductions during the year	**(899,065)**	(556,611)
	7,959,969	8,538,181
Depreciation to date	**(2,293,223)**	(2,279,779)
Net book value of Premises (including leasehold improvements)	**5,666,746**	6,258,402
II Other Fixed Assets (including furniture and fixtures)		
Cost at 1 April	**3,865,784**	4,344,276
Additions during the year	**897,989**	1,170,243
Deductions during the year	**(252,315)**	(1,648,735)
	4,511,458	3,865,784
Depreciation to date	**(2,866,184)**	(2,585,825)
Net book value of Other Fixed Assets (including furniture and fixtures)	**1,645,274**	1,279,959
III Capital Work-in-progress	**88,856**	242,678
TOTAL (I+II+III)	**7,400,876**	7,781,039
11 Other Assets		
I Inter-office adjustments (net)	**–**	–
II Interest accrued	**15,782,483**	16,157,109
III Tax paid in advance/tax deducted at source (net of provision for tax)	**12,635,335**	5,515,787
IV Deferred tax (net) *(refer to schedule 18 note 5.12)*	**2,689,225**	3,896,106
V Stationery and stamps	**3,249**	1,651
VI Non-banking assets acquired in satisfaction of claims	**–**	–
VII Items in course of collection	**–**	–
VIII Others	**153,130,530**	196,133,052
TOTAL (I+II+III+IV+V+VI+VII+VIII)	**184,240,822**	221,703,705

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 2022

(Currency: Indian rupees in thousands)

		As at 31 March 2022	As at 31 March 2021
12	**Contingent liabilities** *(refer to schedule 18 note 5.14)*		
I	Claims against the bank not acknowledged as debts (including tax matters) *(refer to schedule 18 note 5.3)*	**11,253,745**	8,656,411
II	Liability for partly paid investments	**500**	500
III	Liability on account of outstanding forward exchange and derivative contracts		
	i) Forward contracts	**7,695,060,130**	7,757,512,686
	ii) Currency options	**971,153,817**	720,996,993
	iii) Derivative contracts	**10,809,049,536**	8,325,824,865
	Total i), ii) and iii)	**19,475,263,483**	16,804,334,544
IV	Guarantees given on behalf of constituents		
	i) In India	**337,718,610**	289,495,241
	ii) Outside India	**60,930,502**	53,202,701
	Total i) and ii)	**398,649,112**	342,697,942
V	Acceptances, endorsements and other obligations	**101,714,524**	82,784,491
VI	Bills rediscounted	**2,275,800**	–
VII	Other items for which the bank is contingently liable	**123,824,655**	61,911,018
	TOTAL (I+II+III+IV+V+VI+VII)	**20,112,981,819**	17,300,384,906

Schedules forming part of the Profit and Loss Account for the year ended 31 March 2022

(Currency: Indian rupees in thousands)

		For the year ended 31 March 2022	For the year ended 31 March 2021
13	**Interest earned**		
I	Interest/discount on advances/bills	**55,791,230**	58,792,757
II	Income on investments	**57,502,025**	50,935,008
III	Interest on balances with Reserve Bank of India and other inter-bank funds	**16,306,894**	9,077,676
IV	Others	**1,698,346**	3,050,502
	TOTAL (I+II+III+IV)	**131,298,495**	121,855,943
14	**Other income**		
I	Commission, exchange and brokerage (net)	**8,196,115**	6,532,171
II	Profit/(Loss) on sale/maturity of investments (net)	**(3,049,013)**	2,229,596
III	Profit/(Loss) on revaluation of investments (net)	**(16,892,029)**	71,295
IV	Profit/(Loss) on disposal of land, buildings and other assets (net)	**80,546**	–
V	Profit on exchange transactions (net)	**23,132,911**	13,524,502
VI	Miscellaneous income	**243,459**	253,269
	TOTAL (I+II+III+IV+V)	**11,711,989**	22,610,833
15	**Interest expended**		
I	Interest on deposits	**36,781,009**	33,904,135
II	Interest on Reserve Bank of India/inter-bank borrowings	**516,697**	1,275,280
III	Others	**6,410,278**	3,074,204
	TOTAL (I+II+III)	**43,707,984**	38,253,619
16	**Operating expenses**		
I	Payments to and provisions for employees	**10,966,810**	9,291,402
II	Rent, taxes and lighting	**1,255,869**	1,345,945
III	Printing and stationery	**40,218**	125,080
IV	Advertisement and publicity	**534,758**	213,842
V	Depreciation on Bank's property	**709,149**	766,654
VI	Auditors' fees and expenses	**16,500**	12,400
VII	Law charges	**57,791**	56,690
VIII	Postage, telegrams, telephones, etc.	**189,346**	181,147
IX	Repairs and maintenance	**659,150**	903,359
X	Insurance	**2,566,310**	2,009,718
XI	Other expenditure *(refer to schedule 18 note 5.7 (aj))*	**23,846,373**	24,613,418
	TOTAL (I+II+III+IV+V+VI+VII+VIII+IX+X+XI)	**40,842,274**	39,519,655
17	**Provisions and Contingencies** *(refer to schedule 18 note 5.7 (c))*		
I	Provision for advances	**1,085,315**	1,433,761
II	Taxation charge		
	– Current tax expense	**24,071,739**	27,684,605
	– Deferred tax charge	**1,206,880**	875,717
		25,278,619	28,560,322
III	Other provisions	**184,593**	380,312
	TOTAL (I+II+III+IV)	**26,548,527**	30,374,395

Schedules forming part of the Financial Statements for the year ended 31 March 2022

(Currency: Indian rupees)

Schedule 18 – Significant accounting policies and notes to accounts

1. Background

The accompanying financial statements for the year ended 31 March 2022, 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') notified under Sction 133 of the Companies Act, 2013 read together with Rule 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') at the time of acquisition. 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 and disclosed in Schedule 8 ('Investments') as per the requirements of the RBI guidelines.

(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 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.

Schedules forming part of the Financial Statements for the year ended 31 March 2022 (*Continued)*

(Currency: Indian rupees)

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

4 Significant accounting policies *(Continued)*

4.1 Investments (Continued)

(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.

(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 classified into performing and non- performing advances (‘NPAs’) as per RBI Guidelines.

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 included alongwith 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.

Advances are stated net of bills rediscounted, inter-bank participation certificates issued, specific provisions made towards NPAs, provisions on homogeneous loans, interest in suspense for NPAs, claims received from Export Credit Guarantee Corporation, provision for funded interest on term loan classified as NPAs and provision in lieu of dimunition in fair value of restructured assets.

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.

Schedules forming part of the Financial Statements for the year ended 31 March 2022 (*Continued)*

(Currency: Indian rupees)

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

4 Significant accounting policies *(Continued)*

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 5.7 (ae) 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'.

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.

Fee and commission income are recognised on an accrual basis except in case of Non-Performing Assets. 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.

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.

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.

Schedules forming part of the Financial Statements for the year ended 31 March 2022 (*Continued)*

(Currency: Indian rupees)

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

4 Significant accounting policies *(Continued)*

4.7 Employee benefits (Continued)

(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.

Fixed assets individually costing less than Rs. 35,000 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 miscellaneous 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.

Schedules forming part of the Financial Statements for the year ended 31 March 2022 (*Continued)*

(Currency: Indian rupees)

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

4 Significant accounting policies *(Continued)*

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. 16,390 million of accumulated profits to Remittable Surplus retained in India for Capital to Risk-weighted Assets Ratio (CRAR) requirements (previous year: Rs. Nil).

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. 215 million (previous year: downward by Rs. 347 million) based on an independent professional valuation.

Certain premises valued at Rs. 4,662 million (previous year: Rs. 5,332 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.

5.3 Taxation

Contingent liability of the Bank in respect of taxation for pending litigation for all the years where tax assessment/reassessment has been completed (i.e. upto assessment year 2019-20) amounts to Rs. 8,865 million (previous year: Rs. 7,118 million). This also includes potential liability of the Bank as per draft orders issued during the year. 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 RBI/2017-18/147 DBR. NO.BP 102/21.04.048/2017-18 dated 2 April 2018, the Bank has transferred an amount of Rs. 2,384 million during the year to Investment Fluctuation Reserve (previous year: Rs. 4,523 million).

5.6 Implementation of IFRS converged Indian Accounting Standards (Ind AS)

In January 2016, the Ministry of Corporate Affairs issued the roadmap for implementation of new Indian Accounting Standards (Ind AS), which largely converges with International Financial Reporting Standards (IFRS), for scheduled commercial banks, insurance companies and non-banking financial companies (NBFCs). The Bank has been submitting proforma Ind AS financial statements to RBI on a half yearly basis, as required. The RBI in its press release issued on March 22, 2019 has deferred the applicability of Ind AS until further notice for Scheduled Commercial Banks.

5.7 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 2022**	As at 31 March 2021
i) Common Equity Tier 1 capital (CET 1) (net of deductions, if any)	**242,401,472**	216,633,650
ii) Additional Tier 1 capital	–	–
Tier 1 capital (i + ii)	**242,401,472**	216,633,650
Tier 2 capital	**27,985,550**	27,597,812
Total capital (Tier 1+Tier 2)	**270,387,022**	244,231,462
Total Risk Weighted Assets (RWAs)	**1,638,450,473**	1,431,173,755
CET 1 Ratio (CET 1 as a percentage of RWAs)	**14.79%**	15.14%
Tier 1 Ratio (Tier 1 capital as a percentage of RWAs)	**14.79%**	15.14%
Tier 2 Ratio (Tier 2 capital as a percentage of RWAs)	**1.71%**	1.93%
(Total Capital as a percentage of RWAs)		
Capital to Risk Weighted Assets Ratio (CRAR)	**16.50%**	17.07%
Leverage Ratio	**7.24%**	6.99%#
Percentage of the shareholding of		
a) Government of India	–	–
b) State Government	–	–
c) Sponsor Bank	–	–
Amount of paid–up equity capital raised during the year	–	–
Amount of non-equity Tier 1 capital raised during the year	–	–
Amount of Tier 2 capital raised during the year	–	–

\# Previous year figure is unaudited

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.

Schedules forming part of the Financial Statements for the year ended 31 March 2022 *(Continued)*

(Currency: Indian rupees)

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

5 Notes to accounts *(Continued)*

5.7 Statutory disclosures (Continued)

(b) Business ratios/information

The details relating to business ratios are given below:

	For the year ended 31 March 2022	For the year ended 31 March 2021
Interest income as percentage to working funds	**5.27%**	5.62%
Non-interest income as percentage to working funds	**0.47%**	1.04%
Cost of deposits	**2.44%**	2.55%#
Net Interest Margin	**3.51%**	3.85%#
Operating profits as percentage to working funds	**2.34%**	3.07%
Return on assets	**1.28%**	1.67%
Business (deposits plus advances) per employee (Rs '000)	**752,330**	622,131
Profit per employee (Rs '000)	**9,021**	9,587

\# Previous year figure is unaudited

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 2022**	For the year ended 31 March 2021
Provision towards NPA (including write-offs net of recoveries)	**453,703**	3,284,951
Provision/(Release) towards standard assets	**539,863**	(2,051,275)
Provision towards country risk	**91,749**	200,085
Provision towards current tax expense	**24,071,739**	27,684,605
Provision towards deferred tax	**1,206,880**	875,717
Other Provisions and Contingencies *(refer to note 5.14)*		
Provision towards reward points	**87,106**	79,320
(Release) towards claims under litigation	**–**	(388)
Provision for other receivables	**71,743**	80,757
Others	**25,744**	220,623
Total	**26,548,527**	30,374,395

(d) Investments

As at 31 March 2022

(Rs '000)

	Investments in India							**Investments outside India**				
	Government Securities	**Other Approved Securities**	**Shares**	**Debentures and Bonds**	**Subsidiaries and/or joint ventures**	**Others**	**Total investments in India**	**Government securities (including local authorities)**	**Subsidiaries and/or joint ventures**	**Others**	**Total Investments outside India**	**Total Investments**
Held to Maturity												
Gross	–	–	–	–	501	–	501	–	–	–	–	501
Less: Provision for non-performing investments (NPI)	–	–	–	–	–	–	–	–	–	–	–	–
Net	**–**	**–**	**–**	**–**	**501**	**–**	**501**	**–**	**–**	**–**	**–**	**501**
Available for Sale												
Gross	746,044,658	–	136,100	32,704,276	–	70,395,198	849,280,232	102,122,764	–	–	102,122,764	951,402,996
Less: Provision for depreciation and NPI	16,891,292	–	–	–	–	–	16,891,292	–	–	–	–	16,891,292
Net	**729,153,366**	**–**	**136,100**	**32,704,276**	**–**	**70,395,198**	**832,388,940**	**102,122,764**	**–**	**–**	**102,122,764**	**934,511,704**
Held for Trading												
Gross	18,187,630	–	–	1,453,960	–	–	19,641,590	–	–	–	–	19,641,590
Less: Provision for depreciation and NPI	–	–	–	1,402	–	–	1,402	–	–	–	–	1,402
Net	**18,187,630**	**–**	**–**	**1,452,558**	**–**	**–**	**19,640,188**	**–**	**–**	**–**	**–**	**19,640,188**

Schedules forming part of the Financial Statements for the year ended 31 March 2022 (*Continued)*

(Currency: Indian rupees)

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

5 Notes to accounts *(Continued)*

5.7 Statutory disclosures (Continued)

(d) Investments (continued)

As at 31 March 2022 (Rs '000)

	Investments in India							**Investments outside India**				
	Government Securities	**Other Approved Securities**	**Shares**	**DebentureS and Bonds**	**Subsidiaries and/or joint ventures**	**Others**	**Total investments in India**	**Government securities (including local authorities)**	**Subsidiaries and/or joint ventures**	**Others**	**Total Investments outside India**	**Total Investments**
Total Investments	**764,232,288**	**–**	**136,100**	**34,158,236**	**501**	**70,395,198**	**868,922,323**	**102,122,764**	**–**	**–**	**102,122,764**	**971,045,087**
Less: Provision for non-performing investments	–	–	–	–	–	–	–	–	–	–	–	–
Less: Provision for depreciation and NPI	16,891,292	–	–	1,402	–	–	16,892,694	–	–	–	–	16,892,694
Net	**747,340,996**	**–**	**136,100**	**34,156,834**	**501**	**70,395,198**	**852,029,629**	**102,122,764**	**–**	**–**	**102,122,764**	**954,152,393**

As at 31 March 2021# (Rs '000)

	Investments in India*							Investments outside India*				
	Government Securities	Other Approved Securities	Shares	DebentureS and Bonds	Subsidiaries and/or joint ventures	Others	Total investments in India	Government securities (including local authorities)	Subsidiaries and/or joint ventures	Others	Total Investments outside India	Total Investments
Held to Maturity												
Gross	-	–	–	–	500	–	500	–	–	–	–	500
Less: Provision for non-performing investments (NPI)	–	–	–	–	225		225	–	–	–	–	225
Net	**–**	**–**	**–**	**–**	**275**	**–**	**275**	**–**	**–**	**–**	**–**	**275**
Available for Sale												
Gross	696,679,748	–	136,100	22,016,538	–	69,563,738	788,396,124	32,899,413	–	–	32,899,413	821,295,537
Less: Provision for depreciation and NPI	–	–	–	–	–	–	–	–	–	–	–	–
Net	**696,679,748**	**–**	**136,100**	**22,016,538**	**–**	**69,563,738**	**788,396,124**	**32,899,413**	**–**	**–**	**32,899,413**	**821,295,537**
Held for Trading												
Gross	13,592,473	–	–	54,755	–	–	13,647,228	–	–	–	–	13,647,228
Less: Provision for depreciation and NPI	–	–	–	440	–	–	440	–	–	–	–	440
Net	**13,592,473**	**–**	**–**	**54,315**	**–**	**–**	**13,646,788**	**–**	**–**	**–**	**–**	**13,646,788**
Total Investments	**710,272,221**	**–**	**136,100**	**22,071,293**	**500**	**69,563,738**	**802,043,852**	**32,899,413**	**–**	**–**	**32,899,413**	**834,943,265**
Less: Provision for non-performing investments	–	–	–	–	225	–	225	–	–	–	–	225
Less: Provision for depreciation and NPI	–	–	–	440	–	–	440	–	–	–	–	440
Net	**710,272,221**	**–**	**136,100**	**22,070,853**	**275**	**69,563,738**	**802,043,187**	**32,899,413**	**–**	**–**	**32,899,413**	**834,942,600**

Previous year figures are unaudited

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. 221,201 million (previous year: Rs. 187,975 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.

Schedules forming part of the Financial Statements for the year ended 31 March 2022 (*Continued)*
(Currency: Indian rupees)

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

5 Notes to accounts *(Continued)*

5.7 Statutory disclosures (Continued)

(d) Investments (Continued)

(Rs '000)

Particulars			As at 31 March 2022	As at 31 March 2021
i)	**Movement of provisions held towards depreciation on investments**			
	a)	Opening balance	**665**	71,960
	b)	Add: Provisions made during the year	**16,892,029**	–
	c)	Less: Write off/write back of excess provisions during the year		(71,295)
	d)	Closing balance	**16,892,694**	665
ii)	**Movement of Investment Fluctuation Reserve**			
	a)	Opening balance	**16,699,040**	12,176,040
	b)	Add: Amount transferred during the year	**2,384,000**	4,523,000
	c)	Less: Drawdown	**–**	–
	d)	Closing balance	**19,083,040**	16,699,040
iii)	**Closing balance in IFR as a percentage of closing balance of investments in AFS and HFT/Current category**		**2.00**	2.00

The outstanding commitments relating to securities purchase and sale contracts as at 31 March 2022 are Rs. 6,494 million (previous year: Rs. 11,825 million) and Rs. 13,844 million (previous year: Rs. 15,708 million) respectively.

(e) Non-performing non-SLR investments

(Rs '000)

Sr. No.	Particulars	As at 31 March 2022	As at 31 March 2021
(1)	Opening balance*	–	–
(2)	Additions during the year since 1st April	–	–
(3)	Reductions during the above period	–	–
(4)	Closing balance*	–	–
(5)	Total provisions held	–	–

* The non-performing non-SLR investments as at 31 March 2022 are Rs. 2 (previous year: Rs. 2). This represents Preference share/ Equity share investments which have been written down to Rs. 2.

(f) Issuer composition of non SLR investments

As at 31 March 2022

(Rs '000)

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	**25,310,270**	**2,500,474**	–	**1,000**	**1,000**
(ii)	Financial Institutions	–	–	–	–	–
(iii)	Banks	–	–	–	–	–
(iv)	Private Corporate	**79,379,265**	**71,895,198**	–	**135,100**	**135,100**
(v)	Subsidiaries/Joint Ventures	**501**	**501**	–	**501**	**501**
(vi)	Others	**102,122,764**	–	–	–	–
(vii)	Provision held towards depreciation	**(1,402)**	–	–	–	–
	Total	**206,811,398**	**74,396,173**	**–**	**136,601**	**136,601**

Schedules forming part of the Financial Statements for the year ended 31 March 2022 (*Continued)*
(Currency: Indian rupees)

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

5 Notes to accounts *(Continued)*

5.7 Statutory disclosures (Continued)

(f) Issuer composition of non SLR investments (Continued)

As at 31 March 2021 (Rs '000)

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	21,570,020	2,500,474	–	1,000	1,000
(ii)	Financial Institutions	–	–	–	–	–
(iii)	Banks	–	–	–	–	–
(iv)	Private Corporate	70,201,111	69,563,737	–	135,100	135,100
(v)	Subsidiaries/Joint Ventures	500	500	–	500	500
(vi)	Others	32,899,413	–	–	–	–
(vii)	Provision held towards depreciation	(665)	–	–	–	–
	Total	124,670,379	72,064,711	–	136,600	136,600

Note: Total investments include net investments in PTC of Rs. 70,395 million (previous year: Rs. 69,564 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.

(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 2021-22	Maximum Outstanding During the Year 2021-22	Daily Average Outstanding During the Year 2021-22	Outstanding as at 31 March 2022
Securities sold under repos					
i.	Government securities	**1,226,720**	**138,257,300**	**85,454,245**	**46,885,200**
ii.	Corporate debt securities	**5,000,000**	**5,000,000**	**95,890**	**–**
iii.	Any other securities	**–**	**–**	**–**	**–**
Securities purchased under reverse repos					
i.	Government securities	**221,163,500**	**583,656,490**	**434,011,651**	**221,163,500**
ii.	Corporate debt securities	**400,000**	**1,050,000**	**15,205**	**–**
iii.	Any other ecurities	**380,900**	**109,899,125**	**5,242,078**	**109,899,125**

(Rs '000)

		Minimum Outstanding During the Year 2020-21	Maximum Outstanding During the Year 2020-21	Daily Average Outstanding During the Year 2020-21	Outstanding as at 31 March 2021
Securities sold under repos					
i.	Government securities	2,521,600	221,702,210	99,121,701	80,445,300
ii.	Corporate debt securities	2,500,000	2,500,000	47,945	–
iii.	Any other securities	–	–	–	–
Securities purchased under reverse repos					
i.	Government securities	55,457,390	478,075,530	261,231,972	255,804,060
ii.	Corporate debt securities	3,000,000	6,000,000	2,186,301	–
iii.	Any other securities	–	–	–	–

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.

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 2022 (*Continued)*
(Currency: Indian rupees)

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

5 Notes to accounts *(Continued)*

***5.7 Statutory disclosures* (Continued)**

(i) Classification of advances and provisions

As at 31 March 2022 (Rs '000)

	Standard	Non-Performing				Total
	Total Standard Advances	Sub-standard	Doubtful	Loss	Total Non-Performing Advances	
Gross Standard Advances and NPAs						
Opening Balance	713,828,452	4,742,888	3,916,587	466,564	9,126,039	722,954,491
Add: Additions during the year#					4,380,136	
Less: Reductions during the year*					(7,068,190)	
Closing balance	816,961,507	1,502,617	3,409,080	1,526,288	6,437,985	823,399,492
*Reductions in Gross NPAs due to:						
i) Upgradation					(3,992,207)	
ii) Recoveries# (excluding recoveries from upgraded accounts)					(733,923)	
iii) Technical/Prudential Write-offs					–	
iv) Write-offs other than those under (iii) above					(2,342,060)	
Provisions (excluding Floating Provisions)						
Opening balance of provisions held	4,327,205	2,427,803	3,328,259	467,687	6,223,749	10,550,954
Add: Fresh provisions made during the year** #					2,492,220	
Less: Excess provision reversed/ Write-off loans** #					(3,778,965)	
Closing balance of provisions held**	4,492,942	524,169	2,886,547	1,526,288	4,937,004	9,429,946
Net NPAs						
Opening Balance		2,315,085	588,328	(1,123)	2,902,290	
Add: Fresh additions during the year					1,887,916	
Less: Reductions during the year					(3,289,225)	
Closing Balance		978,448	522,533	–	1,500,981	
Floating Provisions						
Opening Balance	–	–	–	–	–	–
Add: Additional provisions made during the year						–
Less: Amount drawn down during the year						
Closing balance of floating provisions						–
Technical write-offs and the recoveries made thereon						
Opening balance of Technical/ Prudential written-off accounts						–
Add: Technical/Prudential write-offs during the year						–
Less: Recoveries made from previously technical/prudential written-off accounts during the year						–
Closing balance						–

\# Includes movement due to exchange fluctuation
** includes movement of Interest Capitalisation–Restructured NPA Account

Schedules forming part of the Financial Statements for the year ended 31 March 2022 (*Continued)*
(Currency: Indian rupees)

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

5 Notes to accounts *(Continued)*

5.7 Statutory disclosures (Continued)

(i) Classification of advances and provisions (continued)

As at 31 March 2021##

(Rs '000)

	Standard##	Non-Performing##				Total
	Total Standard Advances	**Sub-standard**	**Doubtful**	**Loss**	**Total Non-Performing Advances**	
Gross Standard Advances and NPAs						
Opening Balance	764,544,736	2,529,194	3,413,779	750,293	6,693,266	771,238,002
Add: Additions during the year#					5,926,666	
Less: Reductions during the year* #					(3,493,893)	
Closing balance	**713,828,452**	**4,742,888**	**3,916,587**	**466,564**	**9,126,039**	**722,954,491**
*Reductions in Gross NPAs due to:						
i) Upgradation					(1,232,784)	
ii) Recoveries# (excluding recoveries from upgraded accounts)					(409,559)	
iii) Technical/Prudential Write-offs					–	
iv) Write-offs other than those under (iii) above					(1,851,550)	
Provisions (excluding Floating Provisions)						
Opening balance of provisions held	6,091,512	1,316,842	3,282,267	832,236	5,431,346	11,522,858
Add: Fresh provisions made during the year					3,336,872	
Less: Excess provision reversed/ Write-off loans					(2,544,469)	
Closing balance of provisions held	**4,327,205**	**2,427,803**	**3,328,259**	**467,687**	**6,223,749**	**10,550,954**
Net NPAs						
Opening Balance		1,212,352	131,512	(81,944)	1,261,920	
Add: Fresh additions during the year					2,589,794	
Less: Reductions during the year					(949,424)	
Closing Balance		**2,315,085**	**588,328**	**(1,123)**	**2,902,290**	
Floating Provisions						
Opening Balance	–	–	–	–	–	–
Add: Additional provisions made during the year						–
Less: Amount drawn down during the year						–
Closing balance of floating provisions					–	
Technical write-offs and the recoveries made thereon						
Opening balance of Technical/ Prudential written-off accounts						–
Add: Technical/Prudential write-offs during the year						–
Less: Recoveries made from previously technical/prudential written-off accounts during the year						–
Closing balance						–

\# Includes movement due to exchange fluctuation

\## Previous year figures are unaudited

Note : 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 2022 (*Continued)*

(Currency: Indian rupees)

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

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

5.7 Statutory disclosures **(Continued)**

(i) Classification of advances and provisions (continued)

Ratios	**As at 31 March 2022**	As at 31 March 2021
Gross NPA to Gross Advances	**0.78%**	1.26%
Net NPA to Net Advances	**0.18%**	0.40%
Provision coverage ratio	**75.20%**	68.20%

(j) Concentration of Advances

(Rs '000)

	As at 31 March 2022	As at 31 March 2021
Total Advances of twenty largest borrowers	**495,951,676**	515,835,543
Percentage of Advances of twenty largest borrowers to Total Advances of the bank	**13.90%**	15.42%

(k) Concentration of Exposures

(Rs '000)

	As at 31 March 2022	As at 31 March 2021
Total Exposure to twenty largest borrowers/customers	**567,978,651**	540,196,383
Percentage of Exposures of twenty largest borrowers/customers to Total Exposure of the bank on borrowers/customers	**15.04%**	15.57%

(l) Concentration of NPAs

(Rs '000)

	As at 31 March 2022	As at# 31 March 2021
Total Exposure to the top twenty NPA accounts	**3,680,440**	4,081,810
Percentage of Exposures to the twenty largest NPA Exposures to Total Gross NPAs.	**57.17%**	44.73%

Previous year figures are unaudited

(m) Unsecured Advances

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

(n) Sector-wise Advances

(Rs '000)

Sl. No.	**Sector**	**As at 31 March 2022** Outstanding Total Advances	**As at 31 March 2022** Gross NPAs	**As at 31 March 2022** Percentage of Gross NPAs to Total Advances in that sector	As at 31 March 2021 Outstanding Total Advances	As at 31 March 2021 Gross NPAs	As at 31 March 2021 Percentage of Gross NPAs to Total Advances in that sector
A	**Priority Sector**						
1	Agriculture and allied activities	**46,739,068**	**685,485**	**1.47**	50,145,104	653,894	1.30
2	Advances to industries sector eligible as priority sector lending	**55,145,504**	**3**	**0.00**	33,751,632	–	–
	2.1 Basic Metal and Metal Products	**9,752,318**	–	–	8,459,921	–	–
	2.2 Food Processing	**5,737,325**	–	–	831,089	–	–
	2.3 All Engineering	**7,884,769**	–	–	5,190,659		–
3	Services	**33,824,648**	**88,051**	**0.26**	43,571,116	127,063	0.29
	3.1 Professional Services	**6,498,003**	–	–	5,060,564	–	–
	3.2 Trade	**15,207,705**	–	–	19,914,333	52,049	0.26
	3.3 NBFC	**403,713**	**77,266**	**19.14**	7,947,881	75,014	0.94
	3.4 Commercial real estate	**7,515,756**	–	–	7,927,579	–	–
4	Personal loans	**29,503**	–	–	42,250	–	–
	4.1 Housing	**28,379**	–	–	20,285	–	–
	4.2 Other Personal Loans	**1,124**	–	–	21,965		
	Sub-total (A)	**135,738,723**	**773,539**	**0.57**	127,510,102	780,957	0.61

Schedules forming part of the Financial Statements for the year ended 31 March 2022 (*Continued)*

(Currency: Indian rupees)

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

5 Notes to accounts *(Continued)*

5.7 Statutory disclosures (Continued)

(n) Sector-wise Advances (Continued)

(Rs '000)

Sl. No.	Sector	As at 31 March 2022 Outstanding Total Advances	Gross NPAs	Percentage of Gross NPAs to Total Advances in that sector	As at 31 March 2021 Outstanding Total Advances	Gross NPAs	Percentage of Gross NPAs to Total Advances in that sector
B	**Non Priority Sector**						
1	Agriculture and allied activities	**176,526**	**176,475**	**99.97**	941,325	217,762	23.13
	1.1 Indirect Agriculture	**176,526**	**176,475**	**99.97**	941,325	217,762	23.13
2	Industry	**234,048,402**	**542,290**	**0.23**	209,245,307	788,530	0.38
	2.1 Chemicals and Chemical Products	**37,590,977**	**122,403**	**0.33**	32,457,244	136,918	0.42
	2.2 All Engineering	**31,450,130**	**–**	**–**	30,589,680	–	–
	2.3 Infrastructure	**60,045,403**	**134,740**	**0.22**	44,369,140	134,734	0.30
	2.4 Vehicles, Vehicle Parts and Transport Equipments	**27,227,809**	**–**	**–**	20,709,544	–	–
3	Services	**371,091,146**	**1,879,761**	**0.51**	306,293,626	2,023,318	0.66
	3.1 Trade	**100,011,274**	**1,798,707**	**1.80**	50,617,210	1,718,969	3.40
	3.2 Commercial Real Estate	**97,865,525**	**78,810**	**0.08**	126,545,940	304,189	0.24
	3.3 NBFC	**98,579,320**	**-**	**–**	56,519,402	–	–
	3.4 Professional services	**36,953,868**	**3**	**0.00**	29,252,642	159	0.00
	3.5 Housing Finance Companies (HFCs)	**22,626,644**	**–**	**–**	35,183,333	–	–
4	Personal loans	**82,344,695**	**3,065,920**	**3.72**	78,964,131	5,315,472	6.73
	4.1 Housing	**56,195,048**	**2,366,916**	**4.21**	50,927,357	3,284,887	6.45
	4.2 Credit Card Receivables	**13,490,367**	**371,893**	**2.76**	15,136,662	1,481,382	9.79
	4.3 Other Retail Loans	**11,807,439**	**317,510**	**2.69**	12,186,078	524,670	4.31
	Sub-total (B)	**687,660,769**	**5,664,446**	**0.82**	595,444,389	8,345,082	1.40
	Total(A+B)	**823,399,492**	**6,437,985**	**0.78**	722,954,491	9,126,039	1.26

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

(o) Provision towards Standard Assets

(Rs '000)

	As at 31 March 2022	As at 31 March 2021
Provision towards standard assets*	**6,701,010**	6,161,147
Provision towards country risk (Refer note 5.7 (y))	**399,684**	307,933
Accumulated surplus arising on sale of NPA	**251,454**	251,454
Total	**7,352,148**	6,720,534

* 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.

(p) 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. 1,776 million and the additional capital required is Rs. 10,776 million for UFCE as at 31 March 2022. (Previous Year: Rs. 1,247 million provision and capital required Rs. 7,930 million).

Schedules forming part of the Financial Statements for the year ended 31 March 2022 (*Continued)*

(Currency: Indian rupees)

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

5 Notes to accounts *(Continued)*

5.7 Statutory disclosures (Continued)

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

The Bank has not sold any financial assets to Securitisation Companies (SC)/Reconstruction Companies (RC) for Asset Reconstruction during the year ended 31 March 2022 (previous year: Rs. Nil).

(r) Details of non performing financial assets purchased/sold

There has been no purchase of NPAs during the year ended 31 March 2022 (previous year: Rs. Nil).

There has been no sale of NPAs during the year ended 31 March 2022 (previous year: Rs. Nil).

(s) Securitisation and Transfer 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 24 September 2021 with respect to transfer of assets.

Details of loans not under default transferred during the year as given below:

	For the year ended 31 March 2022	For the year ended 31 March 2021
Aggregate principal outstanding of loans transferred	**18,730,995**	–
Weighted average maturity of the loans transferred	**46 days**	–
Weighted Average Holding period	**14 days**	
Retention of Economic Beneficial Interest	**28,207,400**	–

There have been no purchases of standard assets during the year.

(t) PSLCs purchased and sold

(Rs '000)

	As at 31 March 2022 Purchased	**As at 31 March 2022 Sold**	As at 31 March 2021 Purchased	As at 31 March 2021 Sold
Agriculture	**20,000,000**	–	31,375,000	–
Small Farmer/Marginal Farmer	**92,500,000**	–	67,950,000	–
Micro Enterprises	**63,565,000**	–	22,857,500	–
General	**107,000,000**	–	215,500,000	–
Total	**283,065,000**	–	337,682,500	–

(u) 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)

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

With reference to cicular RBI/2018-19/157 DBR.BP.BC.No.32/21.04.018/2018-19 dated 1 January 2019, there is no divergence observed by RBI for the financial year 2020-21 (previous year: Rs. Nil).

(w) Particulars of resolution plan and restructuring

Bank has not implemented any Resolution Plan during the financial year 2021-22 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 (previous year: Rs. Nil).

The Bank has implemented Resolution Plan during the financial year 2021-22 as per the Resolution Framework for COVID-19-related Stress laid down by RBI vide its circular RBI/2020-21/16 DOR.No.BP.BC/3/21.04.048/2020-21 dated August 6, 2020 as given below.

As at 30 September 2021 (Rs '000)

Type of borrower	**A Number of accounts where resolution plan has been implemented under this window**	**B exposure to accounts mentioned at (A) before implementation of the plan**	**C Of (B), aggregate amount of debt that was converted into other securities**	**D Additional funding sanctioned, if any, including between invocation of the plan and implementation**	**E Increase in provisions on account of the implementation of the resolution plan***
Personal Loans					
Corporate persons	**1**	**750,000**	–	**82,414**	**430,790**
Of which, MSMEs	–				
Others					
Total	**1**	**750,000**	–	**82,414**	**430,790**

* This represents provision held for this account as on 30 September 2021

Schedules forming part of the Financial Statements for the year ended 31 March 2022 (***Continued)***
(Currency: Indian rupees)

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

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

5.7 Statutory disclosures (Continued)

(w) Particulars of resolution plan and restructuring (Continued)

As at 31 March 2022

(Rs '000)

Type of borrower	A Exposure to accounts lassified as Standard consequent to implementation of resolution plan – Position as at the end of the previous half-year (A)#	B Of (A), aggregate debt that slipped into NPA during the half-year	C Of (A) mount written off during the half-year	D Of (A) amount paid by the borrowers during the half-year	E Exposure to accounts classified as Standard consequent to implementation of resolution plan – Position as at the end of this half-year
Personal Loans					
Corporate persons	**832,414**	**832,414**	-	**10,607**	–
Of which, MSMEs	–	–	–	–	–
Others					
Total	**832,414**	**832,414**	–	**10,607**	–

\# This represents balance for this account as on 1 October 2021

* This is outstanding as on 1 October 2021, excluding FITL from Oct 21 to Dec 21 and repayment made towards FITL in Mar 22. The net outstanding as on 31 March 2022 is Rs 837 million

The Bank has not implemented any Resolution Plan during the financial year 2021-22 as per the Resolution Framework for COVID-19-related Stress laid down by RBI vide its circular RBI/2021-22/32 DOR.STR.REC.12/21.04.048/2021-22 and RBI/2021-22/31 DOR.STR.REC.11/21.04.048/2021-22 dated 5 May 2021.

ii) Details of accounts subjected to restructuring

As at 31 March 2022

(Rs '000)

		Agriculture and allied activities	Corporates (excluding MSME)	Micro, Small and Medium Enterprises (MSME)	Retail (excluding agriculture and MSME)	Total
Standard	Number of borrowers	–	–	–	–	–
	Gross Amount	–	–	–	–	–
	Provision held	–	–	–	–	–
Sub-standard	Number of borrowers	–	–	–	**650**	**650**
	Gross Amount	–	–	–	**620,885**	**620,885**
	Provision held	–	–	–	**169,377**	**169,377**
Doubtful	Number of borrowers	–	–	**2**	**371**	**373**
	Gross Amount	–	–	**77,266**	**180,197**	**257,463**
	Provision held	–	–	**86,241**	**132,268**	**218,509**
Loss	Number of borrowers	–	**1**	–	**4**	**5**
	Gross Amount	–	**51,562**	–	**2,381**	**53,943**
	Provision held	–	**51,562**	–	**2,381**	**53,943**
Total	Number of borrowers	–	**1**	**2**	**1,025**	**1,028**
	Gross Amount	–	**51,562**	**77,266**	**803,463**	**932,291**
	Provision held	–	**51,562**	**86,241**	**304,026**	**441,829**

Schedules forming part of the Financial Statements for the year ended 31 March 2022 (*Continued)*
(Currency: Indian rupees)

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

5 Notes to accounts *(Continued)*

5.7 Statutory disclosures (Continued)

(w) Particulars of resolution plan and restructuring (Continued)

ii) Details of accounts subjected to restructuring (Continued)

As at 31 March 2021

(Rs '000)

		Agriculture and allied activities	Corporates (excluding MSME)	Micro, Small and Medium Enterprises (MSME)	Retail (excluding agriculture and MSME)	Total
Standard	Number of borrowers	–	–	–	–	–
	Gross Amount	–	–	–	–	–
	Provision held	–	–	–	–	–
Sub-standard	Number of borrowers	–	–	–	1,114	1,114
	Gross Amount	–	–	–	740,323	740,323
	Provision held	–	–	–	185,234	185,234
Doubtful	Number of borrowers	–	–	2	27	29
	Gross Amount	–	–	75,014	7,620	82,634
	Provision held	–	–	75,014	7,629	82,643
Loss	Number of borrowers	–	1	–	–	1
	Gross Amount	–	52,562	–	–	52,562
	Provision held	–	53,562	–	–	53,562
Total	Number of borrowers	–	1	2	1,141	1,144
	Gross Amount	–	52,562	75,014	747,943	875,519
	Provision held	–	53,562	75,014	192,863	321,439

(x) Exposures

Exposure to real estate sector

(Rs '000)

Category		**As at 31 March 2022**	As at 31 March 2021
A	Direct exposure	**291,967,036**	263,536,444
(i)	Residential mortgages – Lending fully secured by mortgages on residential property that is or will be occupied by the borrower or that is rented *	**98,741,534**	89,859,565
	Of which individual housing loans eligible for inclusion in priority sector advances	**28,507**	20,326
(ii)	Commercial real estate	**191,452,292**	171,216,369
(iii)	Investments in Mortgage Backed Securities (MBS) and other securitised exposures –		
	a. Residential	**1,702,560**	2,363,030
	b. Commercial Real estate	**70,650**	97,480
B	Indirect exposure	**63,129,286**	52,335,641
	Fund based and non-funded based exposures on National Housing Bank (NHB) and Housing Finance Companies	**63,129,286**	52,335,641
	Others	–	–
	Total exposure to real estate sector (A+B)	**355,096,322**	315,872,085

* Includes undrawn limits of Rs. 15,248 million (previous year: Rs. 14,533 million) pertaining to mortgages on residential property.

Schedules forming part of the Financial Statements for the year ended 31 March 2022 (*Continued)*

(Currency: Indian rupees)

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

5 Notes to accounts *(Continued)*

5.7 Statutory disclosures (Continued)

(x) Exposures (Continued)

Exposure to capital market

(Rs '000)

		As at 31 March 2022	As at 31 March 2021
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;	**136,601**	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**	886
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;	**685,485**	821,300
v.	secured and unsecured advances to stockbrokers and guarantees issued on behalf of stockbrokers and market makers;	**1,530,000**	3,343,089
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;	**8,915,000**	16,015,000
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	**991,649**	4,846,875
	Total Exposure to Capital Market (i to xi)	**12,259,621**	25,163,750

(y) 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 2022*	Provision held as at 31 March 2022	Exposure as at 31 March 2021*	Provision held as at 31 March 2021
Insignificant	310,821,638	296,679	326,134,696	307,933
Low Risk	160,434,161	103,005	24,237,396	–
Moderately Low Risk	456,512	–	3,062,801	–
Moderate Risk	339,515	–	454,229	–
Moderately High Risk	244,130	–	12,205	–
High Risk	20,402	–	23,581	–
Very High Risk	–	–	–	–
Total	**472,316,358**	**399,684**	353,924,908	307,933

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

* Exposures are computed on gross basis

(z) 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. On account of COVID 19 pandemic, as a one-time measure applicable up to 30 June 2021, a bank's exposure limit to a GCL was increased from 25% to 30% of the bank's available eligible capital base.

Schedules forming part of the Financial Statements for the year ended 31 March 2022*(Continued)*

(Currency: Indian rupees)

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

5 Notes to accounts *(Continued)*

5.7 Statutory disclosures (Continued)

(z) Disclosure on Large Exposure Framework (Continued)

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 no breach of LEF limits for any of the exposures. (previous year: no breach of LEF limits for any of the exposures).

(aa) Intra-group exposure

(Rs '000)

	As at 31 March 2022	As at 31 March 2021
Total amount of intra-group exposures	**43,577,435**	34,277,833
Total amount of top-20 intra-group exposures	**43,189,366**	33,981,559
Percentage of intra-group exposures to total exposure of the bank on borrowers/customers	**1.16%**	0.99%
Details of break of limits on intra group exposures and regulatory action theron, if any	**Nil**	Nil

(ab) Concentration of Deposits

(Rs '000)

	As at 31 March 2022	As at 31 March 2021
Total Deposits of twenty largest depositors	**444,247,794**	435,192,849
Percentage of Deposits of twenty largest depositors to Total Deposits of the bank	**23.95%**	26.33%

(ac) Deposit Education and Awareness Fund (DEAF)

(Rs '000)

	As at 31 March 2022	As at 31 March 2021
Opening balance of amounts transferred to DEAF	**1,814,230**	1,545,698
Add: Amounts transferred to DEAF during the year	**520,888**	278,866
Less: Amounts reimbursed by DEAF towards claims	**(13,374)**	(10,334)
Closing balance of amounts transferred to DEAF	**2,321,744**	1,814,230

(ad) Off Balance Sheet SPVs

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

(ae) 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.

The 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 as well as proprietary transactions.

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.

Schedules forming part of the Financial Statements for the year ended 31 March 2022 (*Continued)*

(Currency: Indian rupees)

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

5 Notes to accounts *(Continued)*

5.7 Statutory disclosures (Continued)

(ae) Risk exposure in derivatives (Continued)

Trading derivatives ***(Continued)***

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. The 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 loss results, 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.

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.

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.

Schedules forming part of the Financial Statements for the year ended 31 March 2022 (*Continued)*
(Currency: Indian rupees)

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

5 Notes to accounts *(Continued)*

5.7 Statutory disclosures (Continued)

(ae) Risk exposure in derivatives (Continued)

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.

Quantitative disclosure

(Rs '000)

Sr. No.	Particular	As at 31 March 2022 Currency Derivatives	As at 31 March 2022 Interest Rate Derivatives	As at 31 March 2021 Currency Derivatives	As at 31 March 2021 Interest Rate Derivatives
1	Derivatives (Notional Principal Amount)				
	a) for hedging	–	–	–	–
	b) for trading	**9,040,359,226**	**10,434,904,257**	8,832,032,778	7,972,301,766
2	Marked-to-Market Position				
	a) Asset (+)	**53,174,347**	**54,901,898**	70,229,872	76,440,026
	b) Liability (-)	**51,802,387**	**55,112,728**	70,646,365	80,489,364
3	Credit Exposure #	**277,070,641**	**113,787,096**	249,123,713	114,430,517
4	Likely impact of one percentage point change in interest rate (100 x PV01)				
	a) on hedging derivatives	–	–	–	–
	b) on trading derivatives	**2,756,217**	**12,691,742**	2,735,815	11,511,614
5	Maximum and Minimum of 100 x PV01 observed during the year				
	a) onhedging	–	–	–	–
	Maximum	–	–	–	–
	Minimum	–	–	–	–
	b) on trading				
	Maximum	**2,795,215**	**12,777,363**	3,131,943	11,936,779
	Minimum	**1,051,404**	**10,700,836**	388,611	4,609,796

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

Note :

1. Currency derivatives include forwards, currency options, currency swaps and Currency Futures.
2. Interest rate derivatives include Forward Rate Agreements, Interest Rate Options, Interest Rate Swaps and Interest Rate Futures.
3. The Bank did not have exposure to Credit Default Swap as on 31 March 2022.

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

(Rs '000)

		As at 31 March 2022	As at 31 March 2021
(i)	The notional principal of swap agreements	**10,434,693,707**	7,971,590,284
(ii)	Losses which would be incurred if counterparties failed to fulfill their obligations under the agreements	**54,901,790**	76,439,018
(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)	**45%**	59%
(v)	The fair value of the swap book	**(210,830)**	(4,049,338)

Schedules forming part of the Financial Statements for the year ended 31 March 2022 (*Continued)*
(Currency: Indian rupees)
Schedule 18 – Significant accounting policies and notes to accounts *(Continued)*

5 Notes to accounts *(Continued)*

5.7 Statutory disclosures (Continued)

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

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

(Rs '000)

Nature	Terms	As at 31 March 2021 No.	As at 31 March 2021 Notional principal	As at 31 March 2020 No.	As at 31 March 2020 Notional principal
Trading swaps	Receive floating pay floating	**32**	**69,274,345**	20	45,798,590
Trading swaps	Receive floating pay fixed	**8740**	**5,208,321,851**	5,844	4,047,981,715
Trading swaps	Receive fixed pay floating	**9266**	**5,038,356,702**	5,849	3,794,034,432
Trading swaps	Receive fixed pay fixed	**8**	**9,422,999**	5	9,428,116

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

(Rs '000)

Nature	Terms	As at 31 March 2022 No.	As at 31 March 2022 Notional principal	As at 31 March 2021 No.	As at 31 March 2021 Notional principal
Trading swaps	Receive fixed pay floating	**261**	**109,317,810**	182	74,347,430

(ag) Exchange traded interest rate derivatives

No.	Particulars	31 March 2022	31 March 2021
(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"	–	–

* Includes both purchase and sale.

(ah) Subordinated debt

There was no subordinated debt that was outstanding at any point of time during the year ended 31 March 2022 (previous year: Rs. Nil).

(ai) Penalties imposed by RBI

No penalties were paid to RBI during the year ended 31 March 2022 (Previous year: Rs. Nil).

(aj) Operating Expenses – other expenditure

"Other expenditure" includes the following:

(Rs '000)

	For the year ended 31 March 2022	For the year ended 31 March 2021
Outsourcing Cost	**14,656,122**	13,801,443
PSLC cost	**3,928,998**	3,005,910
Services received from group entities	**3,273,949**	2,714,464

(ak) Bancassurance income

During the year, the Bank earned an amount of Rs.1,238 million towards bancassurance income (previous year: Rs. 886 million).

(Rs '000)

Nature of Income	For the year ended 31 March 2022	For the year ended 31 March 2021
For selling life insurance products	**186,597**	132,605
For selling non life insurance products	**12,321**	15,374
For selling mutual fund products	**1,039,418**	738,406
Total	**1,238,336**	886,385

The bank is a principal agent of Canara HSBC Life Insurance Company Limited for Life Insurance product and Bharti AXA General Insurance Company Limited for non-life insurance products.

Schedules forming part of the Financial Statements for the year ended 31 March 2022 *(Continued)*

(Currency: Indian rupees)

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

5 Notes to accounts *(Continued)*

5.7 Statutory disclosures (Continued)

(al) 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)

	As at 31 March 2022	As at 31 March 2021
Principal amount remaining unpaid to any registered supplier as at the year end	**6,220**	5,471
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	–	–

(am) 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 2022 (Rs '000)

	Day 1	**2 to 7 days**	**8 to 14 days**	**15 to 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	**10,694,311**	**21,507,616**	**41,516,333**	**67,003,848**	**62,495,998**	**(52,709,045)**	**88,004,454**	**104,174,569**	**173,412,641**	**172,798,906**	**129,562,857**	**818,462,488**
Investment Securities	**642,645,400**	**59,049,168**	**518,746**	**32,855,055**	**38,323,439**	**52,526,589**	**13,570,664**	**27,834,102**	**45,103,330**	**11,482,999**	**30,242,901**	**954,152,393**
Deposits	**111,510,260**	**175,105,431**	**133,067,728**	**165,429,818**	**135,768,717**	**124,750,821**	**138,218,174**	**187,737,325**	**45,302,888**	**637,911,049**	**15,286**	**1,854,817,497**
Borrowings	**6,753,505**	**104,349,342**	**570,600**	**–**	**570,600**	**570,600**	**1,631,200**	**1,885,700**	**4,691,150**	**–**	**–**	**121,022,697**
Foreign Currency Assets	**5,382,801**	**161,129,102**	**1,422,774**	**26,425,741**	**39,334,637**	**51,299,823**	**19,064,981**	**6,787,349**	**10,978,560**	**4,782,765**	**3,362,788**	**329,971,321**
Foreign Currency Liabilities	**22,552,429**	**6,991,951**	**469,874**	**4,088,234**	**7,502,532**	**1,557,431**	**5,293,865**	**10,342,115**	**8,451,507**	**58,484,785**	**2,565,695**	**128,300,418**

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.

As at 31 March 2021 (Rs '000)

	Day 1	2 to 7 days	8 to 14 days	15 to 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	5,243,861	9,252,014	18,697,172	59,557,787	63,099,881	15,370,847	82,034,688	72,923,124	145,019,080	136,397,060	109,135,228	716,730,742
Investment Securities	624,346,390	79,279,546	6,884,284	2,747,980	35,959,320	3,197,315	9,741,562	31,473,922	33,789,376	5,996,847	1,526,058	834,942,600
Deposits	108,884,963	196,095,800	101,949,121	211,754,212	114,006,721	87,603,058	81,020,386	169,033,623	97,439,475	484,925,676	1,623	1,652,714,658
Borrowings	2,894,498	117,250,396	6,992,708	277,500	332,900	610,400	1,563,700	1,997,400	2,376,300	–	–	134,295,802
Foreign Currency Assets	4,276,549	126,600,106	1,649,234	5,557,673	41,048,688	5,679,620	9,378,734	4,516,228	19,723,585	7,075,229	5,837,950	231,343,596
Foreign Currency Liabilities	17,260,106	4,334,680	243,840	1,742,055	1,630,664	1,827,197	7,799,211	9,264,642	12,653,177	44,237,476	9,818,650	110,811,698

(an) Overseas Assets, NPAs and Revenue

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

Schedules forming part of the Financial Statements for the year ended 31 March 2022 (*Continued)*

(Currency: Indian rupees)

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

5 Notes to accounts *(Continued)*

5.7 Statutory disclosures (Continued)

(ao) 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 average LCR ratio as of 140% for the financial year ending March 2022 (based on the simple average of the daily values for the year ended 31 March 2022) 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 18% of Net Demand and Time Liabilities (NDTL) as at 31 Mar 2022.

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, vide its notification dated April 17, 2020 has lowered the LCR requirement to 80% from April 17, 2020 with gradual phase back to 90% from October 1, 2020 and to 100% from April 1, 2021.

iii. Composition of HQLA

Level 1 assets for the Bank comprise 98% of the total average HQLAs for the period 01 April 2021 to 31 March 2022 which are in the form of cash, excess CRR, excess SLR securities and US Treasury Bills. This also includes the regulatory dispensation allowed for SLR securities up to 18% of Net Demand and Time Liabilities in the form of borrowing limit available through MSF and 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% wisk 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 above are also classified as Level 2A. For the period April 2021 to March 2022, the Bank held investments in papers that qualified as Level 2A assets with a haircut of 15% and which constituted approximately 1% of the total average HQLAs, well below the maximum cap of 40%. For Level 2B marketable securities representing claims on or claims guaranteed by sovereigns having risk weights higher than 20% but not higher than 50%, i.e., they should have a credit rating not lower than BBB- as per our Master Circular on 'Basel III – Capital Regulations'. Bank held investments that qualified as Level 2B assets with a haircut of 50% and which constituted approximately 0.30% of the total average HQLAs

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.

v. Derivative exposure and potential collateral calls

The net of outflows and inflows of derivative exposures 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 with around 95% share in balance sheet. The foreign currency advances are mainly in USD with less than 5% share in balance sheet and are primarily funded through foreign currency deposits.

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 managed centrally by the Markets Treasury team. The framework and policy around the liquidity and funding management is driven through the Asset, Liability and Capital Management (ALCM) and Treasury Risk function. The liquidity risk management policies are approved by the Asset and Liability Management Committee (ALCO)/Executive Committee (EXCO). 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.

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 2022 (*Continued*)

(Currency: Indian rupees)

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

5 Notes to accounts *(Continued)*

5.7 Statutory disclosures (Continued)

(ao) Liquidity Coverage Ratio (Continued)

Qualitative disclosure ***(Continued)***

(Rs in Millions)

Particulars	31 March 2022		31 December 2021		30 September 2021		30 June 2021		31 March 2021	
	Total Un-weighted Value (average)	Total Weighted Value (average)	Total Un-weighted Value (average)	Total Weighted Value (average)	Total Un-weighted Value (average)	Total Weighted Value (average)	Total Un-weighted Value (average)	Total Weighted Value (average)	Total Un-weighted Value (average)	Total Weighted Value (average)
High quality liquid assets										
1. Total high quality liquid assets		1,046,667		1,079,146		994,841		894,891		924,677
Cash Outflows										
2. Retail deposits and deposits from small business customers, of which:	275,425	24,691	272,336	24,356	272,059	24,287	268,327	23,884	262,446	23,329
(i) Stable Deposits	57,040	2,852	57,548	2,877	58,419	2,921	58,970	2,949	58,316	2,916
(ii) Less Stable Deposits	218,386	21,839	214,789	21,479	213,640	21,366	209,357	20,936	204,130	20,413
3. Unsecured wholesale funding, of which:	1,742,824	927,830	1,740,959	927,012	1,642,347	873,647	1,714,966	839,558	1,434,029	795,737
(i) Operational deposits (all counterparties)	319,163	79,787	323,157	80,789	262,264	65,617	257,288	10,545	–	–
(ii) Non-operational deposits (all counterparties)	1,423,661	848,043	1,417,802	846,223	1,380,083	808,030	1,457,678	829,013	1,429,164	790,873
(iii) Unsecured debt	–	–	–	–	–	–	–	–	4,864	4,864
4. Secured wholesale funding	NA	–	NA	–	NA	–	NA	–	NA	–
5. Additional requirements, of which	116,506	21,132	100,416	16,876	63,753	9,634	64,257	10,612	64,111	12,487
(i) Outflows related to derivative exposures and other collateral requirements	6,830	6,830	4,573	4,573	4,040	4,040	5,330	5,330	7,165	7,165
(ii) Outflows related to loss of funding on debt products	–	–	–	–	–	–	–	–	–	–
(iii) Credit and liquidity facilities	109,676	14,302	95,844	12,304	59,713	5,593	58,927	5,283	56,947	5,322
6. Other contractual funding obligations	38,805	38,805	54,818	54,818	36,639	36,745	31,272	31,272	36,525	36,525
7. Other contingent funding obligations	1,584,828	66,050	1,493,431	61,737	1,457,955	60,722	1,489,129	62,447	1,449,283	60,837
8. TOTAL CASH OUTFLOWS		**1,078,507**		**1,084,800**		**1,005,035**		**967,773**		**928,916**
Cash Inflows										
9. Secured Lending (e.g. reverse repo)	499,439	–	477,732	–	461,281	–	365,321	–	429,110	–
10. Inflows from fully performing exposures	363,922	301,955	364,697	305,398	358,084	306,369	352,113	305,896	312,503	264,125
11. Other cash inflows	26,475	15,482	16,426	9,182	15,437	8,994	14,296	8,825	15,269	10,344
12. TOTAL CASH INFLOWS	**889,836**	**317,437**	**858,856**	**314,580**	**834,801**	**315,363**	**731,730**	**314,721**	**756,883**	**274,469**
		Total Adjusted Value		**Total Adjusted Value**		**Total Adjusted Value**		**Total Adjusted Value**		**Total Adjusted Value**
13. Total HQLA		1,046,667		1,079,146		994,841		894,891		924,677
14. Total net cash outflows		761,070		770,220		689,672		653,052		654,447
15. Liquidty Coverage Ratio (%)		**137.5%**		**140.1%**		**144.2%**		**137.0%**		**141.3%**

Schedules forming part of the Financial Statements for the year ended 31 March 2022 (*Continued)*

(Currency: Indian rupees)

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

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

5.7 Statutory disclosures (Continued)

(ap) Net stable funding Ratio

Qualitative disclosure

The Basel Committee on Banking Supervision (BCBS) had introduced the Net Stable Funding Ratio (NSFR) in order to ensure resilience over a longer-term time horizon by requiring banks to fund their activities with more stable sources of funding. The RBI guidelines for NSFR were effective from 1 October 2021. The NSFR is defined as the amount of available stable funding relative to the amount of required stable funding. "Available stable funding" (ASF) is defined as the capital and portion of liabilities expected to be reliable over the time horizon considered by the NSFR, which extends to one year. The amount of stable funding required ("Required stable funding") (RSF) of a specific institution is a function of the liquidity characteristics and residual maturities of the various assets held by that institution as well as those of its off-balance sheet (OBS) exposures.

The Bank has maintained an NSFR of 143.12% as at 31 March 2022. The minimum NSFR requirement set out in the RBI guideline for the standalone Bank and for Group effective 1 October 1 2021 is 100%.

As at 31 March 2022 (Rs in Million)

		Unweighted value by residual maturity				Weighted
		No maturity*	< 6 months	6 months to < 1yr	≥ 1yr	value
ASF Item						
1	Capital: (2+3)	326,053	–	–	–	326,053
2	Regulatory capital	326,053	–	–	–	326,053
3	Other capital instruments	–	–	–	–	–
4	Retail deposits and deposits from small business customers: (5+6)	178,152	–	107,557	–	260,194
5	Stable deposits	–	–	61,109	–	58,053
6	Less stable deposits	178,152	–	46,448	–	202,140
7	Wholesale funding: (8+9)	592,235	524,463	100,077	364,210	683,027
8	Operational deposits	386,002	–	–	–	193,001
9	Other wholesale funding	206,233	524,463	100,077	364,210	490,026
10	Other liabilities: (11+12)	–	158,399	30,225	144,884	34,885
11	NSFR derivative liabilities	–	–	–	–	–
12	All other liabilities and equity not included in the above categories	–	158,399	30,225	144,884	34,885
13	**Total ASF (1+4+7+10)**	1,096,441	682,862	237,860	509,095	1,304,159
14	Total NSFR high-quality liquid assets (HQLA)	–	–	–	–	43,568
15	Deposits held at other financial institutions for operational purposes	–	–	–	–	–
16	Performing loans and securities: (17+18+19+21+20+22+23)	–	737,391	160,612	439,281	607,216
17	Performing loans to financial institutions secured by Level 1 HQLA	–	364,523	–	–	18,098
18	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	–	94,551	39,589	–	33,977
19	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks, and PSEs, of which:	–	267,967	117,039	324,461	468,295
20	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	–				
21	Performing residential mortgages, of which:	–	4,069	3,984	106,623	74,540
22	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	–	–	–	–	–
23	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	–	6,281	–	8,198	12,307
24	Other assets: (sum of rows 25 to 29)	9,535	55,504	24,242	110,717	181,880
25	Physical traded commodities, including gold	–	–	–	–	–
26	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs	5,591	–	–	–	4,752
27	NSFR derivative assets	1,015	–	–	–	1,015
28	NSFR derivative liabilities before deduction of variation margin posted	2,930	–	–	–	2,930
29	All other assets not included in the above categories	–	55,504	24,242	110,717	173,183
30	Off-balance sheet items	–	1,864,087	–	–	78,598
31	**Total RSF (14+15+16+24+30)**	9,535	2,656,982	184,854	549,998	911,262
32	**Net Stable Funding Ratio (%)**					143.12%

HSBC

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 2022 (*Continued)*

(Currency: Indian rupees)

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

5 Notes to accounts *(Continued)*

5.7 Statutory disclosures (Continued)

(ap) Net stable funding Ratio (Continued)

As at 31 December 2021 (Rs in Million)

		Unweighted value by residual maturity				Weighted
		No maturity*	< 6 months	6 months to < 1yr	≥ 1yr	value
ASF Item						
1	Capital: (2+3)	318,039	–	–	–	318,039
2	Regulatory capital	318,039	–	–	–	318,039
3	Other capital instruments	–	–	–	–	–
4	Retail deposits and deposits from small business customers: (5+6)	169,885	–	107,912	–	252,981
5	Stable deposits	–	–	59,283	–	56,319
6	Less stable deposits	169,885	–	48,629	–	196,663
7	Wholesale funding: (8+9)	318,406	491,393	93,767	341,245	622,405
8	Operational deposits	318,406	–	–	–	159,203
9	Other wholesale funding	–	491,393	93,767	341,245	463,203
10	Other liabilities: (11+12)	600,915	4,590	–	6,636	6,636
11	NSFR derivative liabilities	–	4,590	–	–	–
12	All other liabilities and equity not included in the above categories	600,915	–	–	6,636	6,636
13	**Total ASF (1+4+7+10)**	1,407,245	495,983	201,679	347,881	1,200,061
RSF Item		–	–	–	–	–
14	Total NSFR high-quality liquid assets (HQLA)	–	–	–	–	26,204
15	Deposits held at other financial institutions for operational purposes	–	–	–	–	–
16	Performing loans and securities: (17+18+19+21+20+22+23)	–	235,593	66,681	654,166	575,399
17	Performing loans to financial institutions secured by Level 1 HQLA	–	11,076	–	–	1,108
18	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	–	103,621	13,877	–	22,482
19	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks, and PSEs, of which:	–	120,896	52,803	241,157	222,256
20	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	–	–	–	35,575	23,124
21	Performing residential mortgages, of which:	–	–	–	71,948	46,766
22	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	–	–	–	298,223	253,489
23	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	–	–	–	7,264	6,175
24	Other assets: (sum of rows 25 to 29)	–	13,498	–	132,230	144,142
25	Physical traded commodities, including gold	–	–	–	–	–
26	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs	–	10,579	–	–	8,992
27	NSFR derivative assets	–	–	–	–	–
28	NSFR derivative liabilities before deduction of variation margin posted	–	2,920	–	–	2,920
29	All other assets not included in the above categories	–	–	–	132,230	132,230
30	Off-balance sheet items	–	2,205,328	–	–	72,761
31	**Total RSF (14+15+16+24+30)**	–	2,454,419	66,681	786,397	818,505
32	**Net Stable Funding Ratio (%)**					146.62%

Schedules forming part of the Financial Statements for the year ended 31 March 2022 (*Continued)*

(Currency: Indian rupees)

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

5 Notes to accounts *(Continued)*

5.7 Statutory disclosures (Continued)

(aq) Letters of comfort

The Bank has not issued any letters of comfort during the year ended 31 March 2022 (previous year: Rs. Nil).

(ar) Remuneration policy

In accordance with the requirements of the RBI Circular No. DOR.Appt.BC.No.23/29.67.001/2019-20 dated November 4, 2019, 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.

(as) Drawdown from reserves

As per the requirements vide circular RBI/DOR/2021-22/81 DOR.MRG.42/21.04.141/2021-22 dated 23 March 2022, the Bank has appropriated INR 2,700 million from Investment Reserves to Profit & Loss account during the year ended 31 March 2022 (previous year: Rs. Nil).

(at) Disclosure of complaints

Summary information on complaints received by the bank from customers and from the OBOs

Sr. No.	Particulars	For the year ended 31 March 2022	For the year ended 31 March 2021
	Complaints received by the bank from its customers		
1.	No. of complaints pending at the beginning of the year	**359**	218
2.	No. of complaints received during the year	**12,302**	12,987
3.	No. of complaints disposed during the year	**12,210**	12,846
3.1	Of which, number of complaints rejected by the bank	**3,114**	2,621
4	No. of complaints pending at the end of the year	**451**	359
	Maintainable complaints received by the bank from OBOs		
5.	Number of maintainable complaints received by the bank from OBOs	**259**	513
5.1	Of 5, number of complaints resolved in favour of the bank by BOs	**112**	238
5.2	Of 5, number of complaints resolved through conciliation/ mediation/advisories issued by BOs	**147**	275
5.3	Of 5, number of complaints resolved after passing of Awards by BOs against the bank	**0**	0
6.	Number of Awards unimplemented within the stipulated time (other than those appealed)	**0**	0

1. Maintainable complaints have been identified as per data provided by CEPD, RBI for the period under review.
2. Maintainable complaints refer to complaints on the grounds specifically mentioned in BO Scheme 2006 and covered within the ambit of the Scheme.
3. Complaints have been recorded from date received by OBO Office and closed during the specified periods, including those brought forward from the previous year.

Top five grounds of complaints received by the bank from customers

Grounds of complaints, (i.e. complaints relating to)	Number of complaints pending at the beginning of the year	Number of complaints received during the year	% increase/ (decrease) in the number of complaints received over the previous year	Number of Complaints pending at the end of the year	Of 5, number of complaints pending beyond 30 days
1	2	3	4	5	6
			For the year ended 31 March 2022		
Credit Cards	**103**	**4,011**	**18.32%**	**177**	**9**
ATM/Debit Cards	**57**	**1,335**	**(16.82%)**	**45**	**0**
Loans and advances	**47**	**1,022**	**(32.98%)**	**46**	**3**
Internet/Mobile/Electronic Banking	**27**	**1,432**	**49.95%**	**59**	**5**
Account opening/difficulty in operation of accounts	**19**	**784**	**(30.93%)**	**28**	**1**
Others	**106**	**3,718**	**(15.06%)**	**96**	**10**
Total	**359**	**12,302**	**(5.27%)**	**451**	**28**

Schedules forming part of the Financial Statements for the year ended 31 March 2022 (*Continued)*

(Currency: Indian rupees)

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

5 Notes to accounts *(Continued)*

5.7 Statutory disclosures (Continued)

(at) Disclosure of complaints (Continued)

Grounds of complaints, (i.e. complaints relating to)	Number of complaints pending at the beginning of the year	Number of complaints received during the year	% increase/ (decrease) in the number of complaints received over the previous year	Number of Complaints pending at the end of the year	Of 5, number of complaints pending beyond 30 days
	Top five grounds of complaints received by the bank from customers				
1	2	3	4	5	6
		For the year ended 31 March 2021			
Credit Cards	69	3,390	(22.92%)	103	1
ATM/Debit Cards	57	1,605	(37.01%)	57	0
Loans and advances	19	1,525	25.62%	47	1
Internet/Mobile/Electronic Banking	12	955	(9.74%)	27	1
Account opening/difficulty in operation of accounts	12	1,135	22.70%	19	1
Others	49	4,377	(8.07%)	106	5
Total	218	12,987	(12.86%)	359	9

(au) Factoring services

The Bank has receivables acquired under factoring services amounting to Rs 21,499 million as on 31 March 2022 (previous year: Rs 18,407 million).

(av) Details of provisioning pertaining to fraud accounts

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

(Rs '000)

	For the year ended 31 March 2022	For the year ended 31 March 2021
Number of frauds reported	**2,455**	2,579
Amount involved in frauds	**822,415**	92,351
Provision made*	**449,228**	8,442
Unamortised provision debited from balance in profit and loss account under 'Reserves and Surplus'	**–**	–

* Provision made includes impairment provision made in earlier years towards two corporate loans and is net of recoveries made.

(aw) Disclosure – COVID 19 Regulatory Package

Consequent to the outbreak of the COVID-19 pandemic, the Indian government announced a lockdown in March 2020. Subsequently, the national lockdown was lifted by the government, but regional lockdowns continue to be implemented in areas with a significant number of COVID-19 cases.

In accordance with the COVID-19 Regulatory Packages announced by the RBI on March 27, 2020, April 17, 2020 and May 23, 2020, the Bank, in accordance with its board approved policy, offered a moratorium on the repayment of all installments and/or interest, as applicable, due between March 1, 2020 and August 31, 2020 to all eligible borrowers classified as standard, even if overdue, as on February 29, 2020.

As at 31 March 2022, there is no such moratorium on the repayment offered and consequently no provision outstanding for Covid 19 as at 31 March 2022 (previous year: Rs. 84 million).

(ax) Details of MSME advances subjected to restructuring

The following table sets forth, for the periods indicated, the details of MSME advances subjected to restructuring as per RBI circular RBI/2020–21/17 DOR.No.BP.BC/4/21.04.048/2020-21 dated 6 August 2020.

(Rs '000)

	For the year ended 31 March 2022	For the year ended 31 March 2021
Number of accounts restructured	**1**	1
Amount outstanding	**16,667**	131,950

Schedules forming part of the Financial Statements for the year ended 31 March 2022 (*Continued)*
(Currency: Indian rupees)

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

5 Notes to accounts *(Continued)*

5.8 Employee benefits (Continued)

(ay) Refund/adjustment of 'interest on interest'

In accordance with the instructions in the paragraph 5 of the RBI circular dated April 07, 2021, the Bank shall refund/adjust 'interest on interest' to all borrowers including those who had availed of working capital facilities during the moratorium period, irrespective of whether moratorium had been fully or partially availed, or not availed. Pursuant to these instructions, the methodology for calculation of the amount of such 'interest on interest' is finalised by the Indian Banks Association (IBA) in consultation with other industry participants/bodies. Based on the IBA Methodology the Bank had created a liability towards estimated interest relief of Rs. 51 million which has been fully paid during the year ended 31 March 2022.

a) Summary (Rs '000)

	As at 31 March 2022		As at 31 March 2021	
	Gratuity	**Pension**	Gratuity	Pension
Defined benefit obligation	**1,405,383**	**1,996,966**	1,418,083	2,209,622
Fair value of plan assets	**1,369,102**	**1,756,107**	1,349,163	1,628,250
Net Deficit	**36,281**	**240,859**	68,920	581,372

The pension liability includes a liability in respect of the unfunded plans of Rs. 320.3 million (previous year: Rs. 347.2 million).

The majority of the plan assets are invested in government securities, corporate bonds, special deposit schemes and mutual funds.

b) Changes in present value of defined benefit obligations

(Rs '000)

	For the year ended 31 March 2022		For the year ended 31 March 2021	
	Gratuity	**Pension**	Gratuity	Pension
Opening balance	**1,418,083**	**2,209,622**	1,305,582	3,687,716
Current service cost	**85,573**	**61,574**	86,494	76,479
Interest cost	**86,428**	**135,307**	83,816	164,435
Plan amendment	**–**	**–**	–	(1,623,293)
Benefits paid	**(135,285)**	**(187,568)**	(71,273)	(132,656)
Actuarial loss/(gain) recognised during the year	**(49,416)**	**(221,969)**	13,464	36,941
Closing Balance	**1,405,383**	**1,996,966**	1,418,083	2,209,622

c) Changes in the fair value of plan assets

(Rs '000)

	For the year ended 31 March 2022		For the year ended 31 March 2021	
	Gratuity	**Pension**	Gratuity	Pension
Opening balance	**1,349,163**	**1,628,250**	1,158,716	1,559,886
Expected return on plan assets	**98,702**	**124,824**	95,726	120,536
Contributions by the bank	**69,000**	**235,000**	147,000	–
Benefits paid	**(135,285)**	**(162,866)**	(71,273)	(106,379)
Actuarial (loss)/gain recognised during the year	**(12,478)**	**(69,101)**	18,994	54,207
Closing Balance	**1,369,102**	**1,756,107**	1,349,163	1,628,250
Actual return on plan assets	**86,224**	**55,723**	114,720	174,743

Based on actuarial valuation report expected contribution of the Bank is Rs. 36 million to the gratuity plan assets and nil to pension assets for the annual period ending on 31 March 2022.

Schedules forming part of the Financial Statements for the year ended 31 March 2022 (*Continued)*

(Currency: Indian rupees)

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

5 Notes to accounts *(Continued)*

5.8 Employee benefits *(Continued)*

(ay) Refund/adjustment of 'interest on interest' (Continued)

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

(Rs '000)

	For the year ended 31 March 2022		For the year ended 31 March 2021	
	Gratuity	**Pension**	Gratuity	Pension
Current service cost	**85,573**	**61,574**	86,494	76,479
Interest cost	**86,428**	**135,307**	83,816	164,435
Plan amendment	**–**	**–**	–	(1,623,293)
Expected return on plan assets	**(98,702)**	**(124,824)**	(95,726)	(120,536)
Net actuarial (gain)/loss/recognised during the year	**(36,938)**	**(152,868)**	(5,530)	(17,266)
Charge/(release)	**36,361**	**(80,811)**	69,054	(1,520,181)

e) Key assumptions

	For the year ended 31 March 2022		For the year ended 31 March 2021	
	Gratuity	**Pension**	Gratuity	Pension
Salary Escalation #	**5.5%-11%**	**11%**	5.5%-11%	11%
Discount rate*	**6.9%**	**6.7%**	6.4%	6.3%
Expected rate of return on plan assets	**7.5%**	**7.5%**	8.0%	8%
Attrition rate	**1.5%-14%**	**1.5%-14%**	1.5%-14%	1.5%-14%

\# 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.

* 7.3% for unfunded pension schemes (previous year: 6.9%).

f) Experience adjustments

(Rs '000)

	For the year ended 31 March				
	2022	2021	2020	2019	2018
Gratuity					
Defined benefit obligation	**1,405,383**	1,418,083	1,305,582	1,154,801	1,058,961
Fair value of plan assets	**1,369,102**	1,349,163	1,158,716	1,008,097	843,257
Net deficit/(surplus)	**36,281**	68,920	146,866	146,704	215,704
Experience loss on plan liabilities	**17,278**	27,596	18,923	28,283	20,632
Experience (gain)/loss on plan assets	**12,478**	(18,994)	(18,381)	6,849	108,455
Pension					
Defined benefit obligation	**1,996,966**	2,209,622	3,687,716	2,745,030	2,515,636
Fair value of plan assets	**1,756,107**	1,628,250	1,559,886	1,459,457	1,380,705
Net deficit	**240,859**	581,372	2,127,830	1,285,573	1,134,931
Experience (gain)/loss on plan liabilities	**(16,678)**	(67,954)	77,365	(76,764)	184,361
Experience (gain)/loss on plan assets	**69,101**	(54,207)	(43,502)	(15,533)	51,944

g) Defined contribution plan

The Bank has recognised an amount of Rs. 386 million as an expense for the defined contribution plan of provident fund (previous year: Rs. 378 million) and Rs. 8 million towards defined contribution plan of pension fund (previous year: Rs. 11 million).

h) The Bank has not incurred any expenditure on account of enhancement in family pension of employees of Bank.

5.9 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.

Schedules forming part of the Financial Statements for the year ended 31 March 2022 (*Continued*)
(Currency: Indian rupees)

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

5 Notes to accounts *(Continued)*

5.10 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.

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 2022**		
Segment Revenue	**30,907,256**	**18,450,963**	**92,154,559**	**1,497,706**	**143,010,484**
Segment Result	**20,669,033**	**(399,361)**	**40,231,813**	**(2,080,254)**	**58,421,231**
Unallocated expenses					**(1,230,913)**
Unallocated provisions					–
Extraordinary items					–
Profit before taxes					**57,190,318**
Income taxes					**(25,278,619)**
Net profit					**31,911,699**
			As at 31 March 2022		
Other information					
Segment assets	**1,518,395,103**	**89,818,454**	**833,276,514**	**15,902,939**	**2,457,393,010**
Unallocated assets					**15,707,810**
Total assets					**2,473,100,820**
Segment liabilities	**225,829,429**	**271,409,130**	**1,632,924,908**	**16,165,393**	**2,146,328,860**
Unallocated liabilities					–
Total net assets					**326,771,960**
Depreciation	**337**	**93,998**	**5,775**	**609,039**	**709,149**
Non cash Expense other than depreciation	**(72,640)**	**166,359**	**1,180,181**	**(3,992)**	**1,269,908**

Schedules forming part of the Financial Statements for the year ended 31 March 2022 (*Continued)*
(Currency: Indian rupees)

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

5 Notes to accounts *(Continued)*

5.10 Segment Reporting (Continued)

(Rs '000)

Business Segments	Treasury	Retail Banking	Corporate Banking	Other Banking Business	Total
Particulars	For the year ended 31 March 2021				
Segment Revenue	37,348,317	20,382,883	85,656,135	1,079,441	144,466,776
Segment Result	29,992,685	(3,791,857)	41,602,553	(1,652,488)	66,150,893
Unallocated expenses					(1,271,464)
Unallocated provisions					–
Extraordinary items					–
Profit before taxes					64,879,429
Income taxes					(28,560,322)
Net profit					36,319,107
	As at 31 March 2021				
Other information					
Segment assets	1,448,854,430	80,882,033	713,353,936	46,956,003	2,290,046,402
Unallocated assets					9,411,893
Total assets					2,299,458,295
Segment liabilities	300,278,368	258,095,685	1,430,667,866	15,182,422	2,004,224,341
Unallocated liabilities					580,218
Total net assets					294,653,736
Depreciation	250	37,695	4,183	724,526	766,654
Non cash Expense other than depreciation	(603,277)	3,112,617	(695,267)	–	1,814,073

Notes: 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.

5.11 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 and The Hongkong and Shanghai Banking Corporation Limited, GIFT City branch.

c) Fellow subsidiaries

Fellow subsidiaries comprise companies, which have a common ultimate holding company, HSBC Holdings plc. These are as follows:

HSBC Holdings plc.

HSBC Bank plc and branches

HSBC Bank plc UK ops

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

Schedules forming part of the Financial Statements for the year ended 31 March 2022 (*Continued)*
(Currency: Indian rupees)

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

5 Notes to accounts *(Continued)*

5.11 Related parties (Continued)

c) Fellow subsidiaries ***(Continued)***

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 (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 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) Private Limited
HSBC Invest Direct Securities (India) Private Limited
HSBC Securities and Capital Markets (India) Private Limited
HSBC Software Development (India) Private Limited
HSBC Invest Direct Financial Services (India) Limited
HSBC Invest Direct Distribution Services (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
HSBC Group Management Services Limited
HSBC Markets (USA) Inc.
HSBC Electronic Data Processing Malaysia
HSBC Electronic Data Processing (Philippines), Inc.
HSBC Electronic Data Processing Lanka (Private) Limited

d) Other Related Parties

Canara HSBC Oriental Bank of Commerce Insurance Company Limited
Saudi British Bank

e) Key management personnel and subsidiaries

Chief Executive Officer, Mr. Hitendra Dave is the CEO of the Bank as at 31 March 2022 is considered the Key Management Personnel of the Bank.

HSBC Agency (India) Private Limited is the only subsidiary of the Bank.

Schedules forming part of the Financial Statements for the year ended 31 March 2022 (*Continued)*

(Currency: Indian rupees)

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

5 Notes to accounts *(Continued)*

5.11 Related parties (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 2022	31 March 2021	**31 March 2022**	31 March 2021
Interest Paid	**–**	–	**386,901**	331,774
Interest Received	**–**	–	**1,827**	131,336
Rendering of Services	**–**	–	**674,771**	505,341
Receiving of Services	**1,155,823**	1,271,464	**9,667,543**	14,769,522

(Rs '000)

	Branch offices	
	31 March 2022	31 March 2021
Interest Paid	**1,736**	38,749
Interest Received	**3,261**	11
Rendering of Services	**483,128**	314,356
Receiving of Services	**5.268,578**	641,537

(Rs '000)

Parent	**As at 31 March 2022**	**Maximum during the year 2022**	As at 31 March 2021	Maximum during the year 2021
Borrowings	**–**	**–**	–	–
Deposit	**–**	**–**	–	–
Placement of deposits/other asset	**383,250**	**383,250**	–	–
Advances	**–**	**–**	–	–
Nostro balances	**–**	**–**	–	–
Other liabilities	**–**	**–**	580,218	580,218
Non Funded Commitments	**–**	**–**	–	–

Balances with related parties are as follows: (Rs '000)

Branch offices	**As at 31 March 2022**	**Maximum during during the year 2022**	As at 31 March 2021	Maximum during the year 2021
Borrowings	**229,707**	**33,533,997**	–	45,304,873
Deposit/other liability	**4,561,328**	**12,924,591**	3,978,263	14,020,284
Placement of deposits/other asset	**106,460,295**	**107,783,964**	160,326	2,529,652
Advances	**–**	**–**	–	–
Nostro balances	**1,478,481**	**3,104,778**	1,225,416	4,601,695
Positive MTMs	**5,929,920**	**15,570,739**	13,233,057	28,499,038
Negative MTMs	**8,198,904**	**21,102,831**	19,363,216	24,268,613
Derivative notionals	**966,385,407**	**1,576,657,344**	1,256,197,183	1,470,188,362
Non Funded Commitments	**20,720,970**	**21,923,871**	12,007,884	17,573,154

(Rs '000)

Fellow Subsidiaries & Other Related Parties	**As at 31 March 2022**	**Maximum during during the year 2022**	As at 31 March 2021	Maximum[1] during the year 2021
Borrowings	**6,523,798**	**55,736,829**	2,687,542	74,213,550
Deposit/other liability	**34,319,574**	**91,547,767**	27,069,593	46,863,239
Placement of deposits/other asset	**2,646,525**	**2,738,507**	19,337	74,802
Advances	**–**	**48,206**	–	7,080,000
Nostro balances	**2,316,693**	**19,681,485**	2,359,281	18,076,084
Positive MTMs	**5,689,807**	**6,499,701**	372,954	637,814
Negative MTMs	**8,082,393**	**9,351,751**	314,936	10,785,998
Derivative notionals	**1,125,896,450**	**1,216,988,883**	50,221,187	100,337,082
Investments	**100**	**100**	100	100
Non Funded Commitments	**19,110,778**	**21,369,409**	15,969,632	18,393,359

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 2022 (*Continued)*

(Currency: Indian rupees)

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

5 Notes to accounts *(Continued)*

5.11 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 HSBC Electronic Data Processing India Private Limited **Rs. 237,704** (previous year: Rs. 172,409), HSBC Software Development (India) Private Limited R**s. 102,109** (previous year: Rs. 124,936).

Interest received:

Interest received from HBAP Hong Kong Branch **Rs. 3,261** (previous year: Rs. 11), HSBC Bank (China) Company Limited **Rs. 858** (previous year: Rs. 868), HSBC Bank plc UK ops **Rs. 760** (previous year: Rs. Nil).

Rendering of services:

HBAP Hong Kong Branch **Rs. 279,031** (previous year: Rs. 300,091), HBAP Singapore Branch **Rs. 203,900** (previous year: Rs. 13,890), HUSI North America **Rs. 191,422** (previous year: Rs. 157,494), HBME UAE **Rs. 172,541** (previous year: Rs. 2,555).

Receiving of services:

Expenses for receiving of services from HBAP Hong Kong Branch **Rs. 5,214,641** (previous year: Rs. 588,816), HSBC Group Management Services Limited **Rs. 3,331,834** (previous year: Rs. 583,613), HSBC Software Development (India) Private Limited **Rs. 1,997,978** (previous year: Rs. 2,050,810), HSBC Electronic Data Processing India Private Limited **Rs. 1,952,478** (previous year: Rs. 1,790,892).

Borrowings:

HBAP Hong Kong Branch **Rs. 229,707** (previous year: Rs. NIL), HUSI North America **Rs. 5,618,424** (previous year: Rs. 1,270,604) and HSBC France **Rs. 835,391** (previous year: Rs. 1,378,540)

Placement of deposits/other asset:

HBAP Hong Kong Branch **Rs. 106,353,347** (previous year: Rs. 147,379), HSBC Bank plc **Rs. 2,646,273** (previous year: Rs. Nil)

Nostros:

HBAP Japan **Rs. 492,567** (previous year: Rs. 41,440), HBAP Hong Kong Branch **Rs. 729,602** (previous year: Rs. 922,025), HBAP Singapore **Rs. 241,042** (previous year: Rs. 96,561), HSBC Bank Plc **Rs. 2,093,775** (previous year: Rs. 1,500,056).

Deposits/other liability:

HBAP Hong Kong **Rs. 1,451,857** (previous year: Rs. 2,017,595), HBAP Bangladesh **Rs. 501,280** (previous year: Rs. 977,530), HBAP Sri Lanka **Rs. 1,299,520** (previous year: Rs. 644,584), HSBC Electronic Data Processing India Private Limited **Rs. 7,012,023** (previous year: Rs. 12,090,534), HSBC Software Development (India) Private Limited **Rs. 16,358,984** (previous year: Rs. 13,350,130) and HSBC Securities and Capital Markets (India) Private Limited **Rs. 7,267,010** (previous year: Rs. 77,022).

Non Funded Commitments:

HBAP Hong Kong Branch **Rs. 15,961,814** (previous year: Rs. 9,962,689) and HSBC France **Rs. 3,277,806** (previous year: Rs. 3,855,430).

Derivative Notionals:

HBAP Hong Kong Branch **Rs. 955,108,237** (previous year: Rs. 1,230,854,102), HSBC Singapore Branch **Rs. 11,257,170** (previous year: Rs. 12,623,170), HSBC Bank plc **Rs. 1,115,256,105** (previous year: Rs. 40,737,391) and HSBC Bank USA **Rs. 2,000,000** (previous year: Rs 2,000,000)

Positive MTM:

HBAP Hong Kong Branch **Rs. 5,929,651** (previous year: Rs. 13,228,901) and HSBC Bank Plc **Rs. 5,658,383** (previous year: Rs. 345,015).

Negative MTM:

HBAP Hong Kong Branch **Rs. 7,096,502** (previous year: Rs. 18,434,728), HSBC Singapore Branch **Rs. 1,102,389** (previous year: Rs. 869,999). HSBC Bank Plc **Rs. 7,845,493** (previous year: Rs. 120,324) and HSBC Bank USA **Rs. 236,609** (previous year: Rs. 193,435).

5.12 Deferred taxes

There is a deferred tax charge of Rs. 1,207 million for the year ended 31 March 2022 (previous year: deferred tax charge of Rs. 876 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 2022**	As at 31 March 2021
Provision for doubtful advances	**3,718,588**	4,430,864
Employee benefits	**673,949**	766,946
Fixed Assets	**186,326**	177,281
Provisions	**108,423**	108,423
Others	**180,471**	192,702
Gross Deferred tax assets	**4,867,757**	5,676,216
Deferred tax liability		
Specific reserve	**(2,178,532)**	(1,780,110)
Fixed Ass	**–**	–
Net Deferred Tax Asset	**2,689,225**	3,896,106

Schedules forming part of the Financial Statements for the year ended 31 March 2022 (*Continued)*
(Currency: Indian rupees)

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

5 Notes to accounts *(Continued)*

5.13 Operating leases

Total lease rental of Rs. 1,067 million (previous year: Rs. 1,191 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 2022	As at 31 March 2021
Not later than one year	**88,348**	88,489
Later than one year and no later than five years	**96,069**	29,642
Later than five years		–
Total	**184,417**	118,131

5.14 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 2022		For year ended 31 March 2021	
	Reward points	**Other provisions**	Reward points	Other provisions
Opening balance at the beginning of the period	**356,445**	**500,990**	364,902	199,998
Add: Provision/(release) made during the period (Note 5.7.(c))	**87,106**	**97,487**	79,320	300,992
Less: Utilisation during the period	**(174,618)**	**(391)**	(87,777)	–
Closing balance at the end of the period	**268,933**	**598,086**	356,445	500,990

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.

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.

Schedules forming part of the Financial Statements for the year ended 31 March 2022 (*Continued)*
(Currency: Indian rupees)
Schedule 18 – Significant accounting policies and notes to accounts *(Continued)*

5 Notes to accounts *(Continued)*

5.15 Disclosure of CSR Expenditure

a) Gross amount required to be spent by the Bank and approved by the CSR committee during the year was **Rs. 1,079 million** (previous year: Rs. 915 million).

b) Amount spent during the year: (Rs '000)

For the Year ended 31 March 2022	**In Cash**	**Yet to be paid in Cash**	**Total**
i) Construction/acquisition of any asset	–	–	–
ii) On purpose other than (i) above	**1,079,541**	–	**1,079,541**

(Rs '000)

For the Year ended 31 March 2021	In Cash	Yet to be paid in Cash	Total
i) Construction/acquisition of any asset	–	–	–
ii) On purpose other than (i) above	914,848	–	914,848

c) None of the CSR expenditure incurred by the Bank is to entities controlled by the Related Parties identified by the Management as per AS 18-'Related Party Disclosures'.

5. 16 Marketing and distribution

The Bank has not received any fees or remuneration in respect of market and distribution function (excluding bancassurance business) during the year 2021-22 (Previous year – Nil).

5.17 Payment of DICGC Insurance Premium

(Rs '000)

Sr. No	**Particulars**	**For the year ended 31 March 2022**	For the year ended 31 March 2021
(i)	Payment of DICGC Insurance premium	**2,325,602**	1,877,812
(ii)	Arrears in payment of DICGC premium	–	–

5.18 Disclosure on borrowings and lending activities

The Bank, as part of its normal banking business, grants loans and advances, makes investments, provides guarantees to and accept deposits and borrowings from its customers, other entities and persons. These transactions are part of the Bank's normal banking business and are undertaken in accordance with the guidelines prescribed by the Reserve Bank of India. Other than the transactions described above, no funds have been advanced or loaned or invested (either from borrowed funds or share premium or any other sources or kind of funds) by the Bank to or in any other persons or entities, including foreign entities ("Intermediaries") with the understanding, whether recorded in writing or otherwise, that the Intermediary shall lend or invest in other persons or entities identified by or on behalf of the Bank ("Ultimate Beneficiaries") or provide any guarantee, security or like on behalf of the Ultimate Beneficiaries.

The Bank has also not received any fund from any persons or entities, including foreign entities ('Funding Party') with the understanding, whether recorded in writing or otherwise, that the Bank shall whether, directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Funding Party ("Ultimate Beneficiaries") or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries.

5.19 Prior period comparatives

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

For **K S Aiyar & Co.**
Chartered Accountants
Firm's Regn No: 100186W

Sd/-
Sachin A. Negandhi
Partner
Membership No: 112888

For **Kalyaniwalla & Mistry LLP**
Chartered Accountants
Firm's Regn No: 104607W/W100166

Sd/-
Daraius Z. Fraser
Partner
Membership No: 042454

For **The Hongkong and Shanghai Banking Corporation Limited - India Branches**

Sd/-
Amitabh Nevatia
Chief Financial Officer

Sd/-
Hitendra Dave
Chief Executive Officer

Mumbai
23 June 2022

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 2022

1. Background and Scope of Application

a. Background

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

b. Scope of Application

The capital adequacy framework applies to the Bank as per Reserve Bank of India ('RBI') Basel III Capital Regulations vide RBI Circular DBR. No. BP. BC. 1/21.06.201/2015-16 dated July 1, 2015 as amended from time to time. The Bank has a subsidiary, HSBC Agency (India) Private Limited ('HAPL'), which is consolidated in accordance with Accounting Standard ('AS') – 21 (consolidated financial statements). Full capital deduction is taken in regulatory capital for investment in HAPL. The Bank holds minority interests (2.07% shareholding) in a Group entity HSBC Professional Services (India) Private Limited which is neither consolidated nor is capital deducted. The investment in this company is appropriately risk weighted. The Bank does not have any other Group company where a pro-rata consolidation is done or any deduction is taken. The disclosure and analysis provided herein are in respect of the Bank, except where required and specifically elaborated, to include other Group entities operating in India.

(i) Accounting and prudential treatment / consolidation framework

a. Subsidiaries not included in the consolidation

The aggregate amount of capital held by the Bank in HAPL of Rs. 500,000 is not included in the regulatory scope of consolidation and is deducted from capital.

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

The RBI guidelines on Financial Regulation of Systemically Important NBFCs and Banks' Relationship vide circular ref. DBOD. No. FSD. BC.46 / 24.01.028/ 2006-07 dated 12 December 2006 read with 'Guidelines for consolidated accounting and other quantitative methods to facilitate consolidated supervision' vide circular ref. DBOD.No.BP.BC.72/ 21.04.018/2001-02 dated 25 February 2003 mandate coverage of the 'Consolidated Bank'. This includes, in addition to the Bank the following Non-Banking Finance Company ('NBFC'), which is a subsidiary of HSBC Holdings plc, held through intermediary holding companies:

(Rs '000)

Name of Entity/ Country of Incorporation	Principal activity of the entity	Total balance sheet equity*	Total balance sheet assets
HSBC Invest Direct Financial Services (India) Limited (HIFSL) (Note 1)	Non-banking Finance company	1,462,847	9,372,228

* As stated in the audited balance sheet of the legal entity as at 31 March 2022

Note 1.HIFSL is 'Systemically important non-deposit taking non-banking financial company' ('NBFC-ND-SI') governed by Reserve Bank of India ('RBI'). Further, as per RBI circular dated February 22, 2019 on Harmonisation of different categories of NBFCs, the Company is classifed as an Investment and Credit Company (NBFC - ICC).

As prescribed in the above guidelines, the Bank is not required to prepare consolidated financial statements as it has no shareholding in this entity. However, HIFSL has been considered under regulatory scope of consolidation for the quantitative disclosures including that of capital adequacy computation under Basel III guidelines.

(ii) Bank's total interest in insurance entities

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

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

(Rs '000)

Name of Entity /Country of Incorporation	Principle activity of the entity	Total balance sheet equity*	Total balance sheet assets*
HSBC Asset Management (India) Private Limited	Asset management/portfolio management	615,909	1,978,180
HSBC Electronic Data Processing (India) Private Limited	Back office / data processing / call centre activities	3,554,678	31,033,280
HSBC Global Shared Services (India) Private Limited	Under liquidation	–	–
HSBC InvestDirect (India) Private Limited "formerly known as HSBC InvestDirect (India) Limited"	Holding company for HSBC InvestDirect Group	709,544	5,238,291
HSBC InvestDirect Employees' Welfare Trust	Non-operating company	15	18,573
HSBC InvestDirect Sales & Marketing (India) Limited	Non-operating company	1,000	38,900
HSBC InvestDirect Securities (India) Private Limited	Retail securities broking and related activities (Discontinued)	1,745,112	154,727
HSBC Professional Services (India) Private Limited	Providing internal audit services to Group companies	4,838	372,978
HSBC Securities and Capital Markets (India) Private Limited	Stock broking and corporate finance & advisory	Equity – 4,701,139 Preference – 250,000	8,434,254
HSBC Software Development (India) Private Limited	Software design, development and maintenance	327,264	31,962,000
Canara HSBC Oriental Bank of Commerce Life Insurance Company Limited	Life insurance	9,500,000	218,124,957
HSBC GIFT City International Banking Unit	Banking	1,454,885	2,204,726

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

Note 1: The Bank does not hold any stake in the total equity of the entities mentioned above with the exception of HSBC Professional Services (India) Private Limited.

Note 2: Since the Bank does not hold any stake in the total equity of the entities, the same have not been considered for any regulatory treatment.

Basel III – Pillar 3 disclosures of India Branches for the year ended 31 March 2022 *(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 2022, 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 2022**
(i) Common Equity Tier I (CET1)	**5.50%**
(ii) Capital Conservation Buffer (CCB) - (Refer note I)	**2.50%**
(iii) Counter-cyclical Buffer (CCyB) - (Refer note II)	–
(iv) Global Systemically Important Bank (G-SIB) - (Refer note III)	**2.00%**
Minimum Common Equity Tier I (i+ii+iii+iv)	**10.00%**
Minimum Tier I Capital	**11.50%**
Total Minimum Capital Adequacy Ratio	**13.50%**

Notes: I. The CCB is designed to ensure that banks build up capital buffers during normal times, which can be drawn down during a stressed period. Banks in India are required to maintain a capital conservation buffer of 2.50% in a phased manner. Current CCB stands at 2.50% with effect from 01 October 2021.

II. RBI issued guidelines on CCyB framework for banks in India in February 2015. The CCyB may vary from 0 to 2.5% of total RWA and the decision would normally be pre-announced with a lead time of 4 quarters. The activation of CCyB will depend upon Credit to GDP gap in India along with supplementary indicators such as Credit-Deposit ratio for a moving period of 3 years, industry outlook assessment index and interest coverage ratio. As stated by RBI in press release date April 5, 2021, a review of CCyB indicators was carried out by the RBI and it has been decided that it is not necessary to activate CCyB in India at this point in time.

III. The Reserve Bank of India (RBI) released the framework on D-SIB requirements for banks operating in India in July 2014. Banks may become systemically important due to their size, cross-jurisdictional activity, complexity, interconnectedness and lack of substitutability. As per the RBI guidelines, a foreign bank having branch presence in India (such as the Bank) which is classified as Globally Systemically Important Bank (G-SIB) by Financial Stability Board (FSB), has to maintain additional CET1 capital surcharge in India as applicable to it as a G-SIB, proportionate to its Risk Weighted Assets (RWAs) in India. Accordingly, 2.00% had been added to minimum requirement towards G-SIB as of 31 March 2022.

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 2022	As at 31 March 2021	**As at 31 March 2022**	As at 31 March 2021
Capital	**44,991,660**	44,991,660	**46,454,507**	46,454,507
Eligible Reserves	**197,832,648**	171,967,699	**201,255,123**	175,191,069
– Capital reserves (excl. revaluation reserve)	**108,018,259**	90,855,494	**108,018,259**	90,855,494
– Statutory Reserves	**84,346,089**	76,274,208	**84,346,089**	76,274,208
– Specific Reserves	**4,987,481**	4,075,342	**4,987,481**	4,075,342
– Free Reserves	–	–	**3,422,475**	3,223,371
– Revaluation Reserves at a discount of 55 per cent	**480,819**	762,655	**480,819**	762,655
Less: Deductions from Tier I Capital	**(422,836)**	(325,708)	**(428,473)**	(331,738)
– Intangible asset	**(146,440)**	(152,308)	**(149,967)**	(155,708)
– Deferred Tax Asset ('DTA') (Note 1)	–	–	**(2,110)**	(2,630)
– Investment in subsidiaries in India	**(501)**	(275)	**(501)**	(275)
– Debit Value Adjustments (DVA)	**(196,402)**	(173,125)	**(196,402)**	(173,125)
– Defined Benefit Pension Fund Asset	**(79,493)**	–	**(79,493)**	–
Common Equity Tier I Capital	**242,401,472**	216,633,650	**247,281,157**	221,313,838
Additional Tier I Capital	–	–	–	–
Total Tier I Capital	**242,401,472**	216,633,650	**247,281,157**	221,313,838

Note 1: For Standalone, as per RBI guidelines as on 01 March 2016, DTA which was deducted from CET1 capital, can be recognised in the CET1 up to a limit of 10% of Bank's CET1 capital (after application of regulatory adjustments mentioned in RBI Master Circular on Basel-III Capital Regulations dated 01 July 2015.). Accordingly, DTA of Rs. 2,689,225 ('000) (previous year: Rs. 3,896,106 ('000)) is not deducted.

Basel III – Pillar 3 disclosures of India Branches for the year ended 31 March 2022 *(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 2022	As at 31 March 2021	**As at 31 March 2022**	As at 31 March 2021
General Loss Provisions	**7,352,148**	6,720,534	**7,353,006**	6,721,131
Other Eligible Reserves	**1,550,362**	4,178,238	**1,550,362**	4,178,238
Investment Fluctuation Reserves	**19,083,040**	16,699,040	**19,083,040**	16,699,040
Total Tier II Capital (Note 1)	**27,985,550**	27,597,812	**27,986,408**	27,598,409

Note 1: There is no debt capital instrument and subordinated debt outstanding as at 31 March 2022 (previous year: Nil) included in Tier II Capital.

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

		Standalone		Consolidated	
		As at 31 March 2022	As at 31 March 2021	**As at 31 March 2022**	As at 31 March 2021
I.	**Capital required for Credit Risk**	**161,427,688**	131,068,627	**162,748,985**	131,983,540
	– For portfolios subject to Standardised approach	161,427,688	131,068,627	**162,748,985**	131,983,540
II.	**Capital required for Market Risk (Standard Duration Approach)**	**36,691,867**	32,967,887	**36,691,867**	32,967,887
	– Interest rate risk	**29,141,412**	24,690,224	**29,141,412**	24,690,224
	– Foreign exchange risk	**3,341,250**	3,163,050	**3,341,250**	3,163,050
	– Equity risk	**814,978**	669,362	**814,978**	669,362
	– Securitisation exposure	**3,394,227**	4,445,251	**3,394,227**	4,445,251
III.	**Capital required for Operational Risk (Basic Indicator Approach)**	**23,071,259**	18,867,492	**23,071,259**	18,867,492
	Total capital requirement (I + II + III)	**221,190,814**	182,904,006	**222,512,111**	183,818,919
	Total capital funds of the Bank	**270,387,022**	244,231,462	**275,267,565**	248,912,247
	Total risk weighted assets	**1,638,450,472**	1,431,173,755	**1,647,259,121**	1,437,273,176
	Total capital ratio	**16.50%**	17.07%	**16.71%**	17.32%
	Common Equity Tier I Capital Ratio	**14.79%**	15.14%	**15.01%**	15.40%
	Tier I capital ratio	**14.79%**	15.14%	**15.01%**	15.40%

3. Credit risk

a. General

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

The principal objectives of our credit risk management function are:

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

Strategy and Processes

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

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

- The Board of The Hongkong and Shanghai Banking Corporation Limited in Hong Kong SAR (HBAP) has established the India Executive Committee (EXCO) to assist the Board in the running of the Bank. The EXCO is authorized to exercise all the powers, authorities and discretions of the HBAP on the management and day to day running of the Bank, in accordance with the policies and directions set by the Board from time to time. EXCO approves all the policies including credit policies. A Risk Management Meeting (RMM) consisting of senior executives, reviews overall portfolio risks and key risks faced by the bank in India on a monthly basis.

Basel III – Pillar 3 disclosures of India Branches for the year ended 31 March 2022 *(Continued)*

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

a. General ***(Continued)***

Strategy and Processes ***(Continued)***

- Wholesale Credit Risk independently assesses the credit profile of the customer and the applications are then approved in the committee. All the domestic credit proposals in wholesale banking are approved by Credit Committee. There are nine levels of credit committees, each with different membership and approval authorities, depending on the size and complexities of the proposal.
- The WPB Risk function is responsible for monitoring the quality of the Wealth and Personal Banking lending portfolio. For retail lending, INM has developed credit application scorecards (which make use of statistical models & historical data) and defined policy parameters to assess the borrowers. The Bank also deploys other tools like external verifications, negative customer database search & most importantly credit bureau checks through the Credit Information Bureau (India) Limited (CIBIL). Policy rules are built into the system to enable online checks. This may also be supplemented with judgmental lending as appropriate. The judgmental aspect tries to identify the financial strength, ability and intentions of borrowers for repayment.
- WPB Credit Control Services (CCS) manages the First Line of Defense (FLOD) activities i.e. Underwriting and Collections. CCS at an entity level reports into the WPB Chief Operating Office and functionally into the Regional CCS structure. CCS underwriting team decisions cases within the approved policy parameters whereas exceptions / deviations in policy (ELA) and/or basis the exposure, cases are further recommended to the respective WPB Credit Committees for review and decisioning.
- For retail risk, the INM WPB Risk and Acquisition and Account Risk Management Team reviews and communicates the various internal risk policies. The RRPs (Risk reward program) defines the product parameters for WPB.
- All material risks are covered under robust framework for Risk Appetite Statements (RAS) and Risk Tolerance triggers. The Risk Management Meeting reviews and regularly monitors the compliance with RAS. The Bank has stipulated Credit Risk Appetite and tolerance triggers for asset quality, impairments, risk weighted assets, risk adjusted returns and concentration risks.
- The bank has various policies to support the management of the wholesale credit risk. Some of the key policies are highlighted below:
- Designing of comprehensive credit risk policies for management of Wholesale Exposure norms and Country Risk Plan. These policies delineate the Bank's risk appetite and maximum permissible exposures to individual customers, customer groups, industries, sensitive sectors and other forms of credit risk concentrations.
- The bank also has comprehensive policies for valuation, end use monitoring, real estate exposures, management of intra-group exposures, provisioning, distressed assets and recovery and sale of NPA.
- The bank has sustainability risk policies to ensure management of reputation risk in high risk sectors.
- Stress Testing Policy & Framework for rigorous risk specific and Enterprise-wide stress testing and reporting is used to assess the credit risk on the portfolio.
- Managing exposures to debt securities by establishing controls in respect of the liquidity of securities held for trading and setting issuer limits for financial investments. Separate portfolio limits are established for asset-backed securities and similar instruments.
- Controlling of cross-border exposures to manage country and cross-border risk through the imposition of country limits with sub-limits by maturity and type of business.
- Maintaining and developing HSBC's risk rating framework and systems to classify exposures meaningfully and facilitate focused management of the risks involved. Rating methodologies are based upon a wide range of financial analytics together with market data-based tools, which are core inputs to the assessment of customer risk. For larger facilities, while full use is made of automated risk rating processes, the ultimate responsibility for setting risk ratings rests with the final approving executive. Risk grades are reviewed frequently and amendments, where necessary, are implemented promptly.

Structure and Organisation

The Risk function is responsible for the quality and performance of its credit portfolios and for monitoring and controlling all credit risks in its portfolios.

Credit underwriting is processed at different levels (country, region, Group) depending on size and complexity of proposals and by different teams (FIs / Corporate / Trade / Cross-Border Approvals). Credit approval authorities are delegated from the Chief Risk Officer at the Regional Head Office in Hong Kong to the CEO, India and the CRO, India. The CRO in India maintains a functional reporting line to the CRO in Hong Kong. All the domestic credit proposals in wholesale banking are approved by Credit Committee as delegated by the CRO. There are nine levels of credit committees, each with different membership and approval authorities, depending on the size and complexities of the proposal. For Retail, EXCO will delegate lending authority to the Retail Credit Committees and delegate lending authority at a 'band' level to WPB officers. WPB Risk Head will communicate the EXCO delegated limits to individual WPB officers. For certain customer types, the approval is granted either by ASP Risk/ Group Risk basis the recommendation of India WMR. Relationship management of wholesale problem accounts or downgrades in certain internal ratings are transferred to SCR (Special Credit 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.

Basel III – Pillar 3 disclosures of India Branches for the year ended 31 March 2022 *(Continued)*

3 Credit risk *(Continued)*

a. General (Continued)

Non-performing advances

Non-performing advances are identified by periodic appraisals of the portfolio by management or in accordance with RBI guidelines, whichever is earlier.

Specific provisions are made on a case by case basis based on management's assessment of the degree of impairment of the advances (including mortgage loans but excluding other homogeneous retail loans), subject to the minimum provisioning levels prescribed by the RBI. Where there is no longer any realistic prospect of recovery, the outstanding advance is written off.

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

b. Quantitative disclosures for portfolios under the Standardised approach

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

(Rs '000)

			As at 31 March 2022
	Fund based Note 1	**Non-fund based** Note 2	**Total**
Overseas	–	–	–
Domestic	**1,473,209,469**	**837,495,563**	**2,310,705,032**
Total	**1,473,209,469**	**837,495,563**	**2,310,705,032**

(Rs '000)

			As at 31 March 2021
	Fund based Note 1	Non fund based Note 2	Total
Overseas	–	–	–
Domestic	1,468,725,351	729,247,185	2,197,972,536
Total	1,468,725,351	729,247,185	2,197,972,536

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 2022

(Rs '000)

Industry	**Funded**	**Non Funded**	**Total**
Mining and Quarrying	**230,427**	**2,150,934**	**2,381,361**
Food Processing	**14,116,823**	**3,017,295**	**17,134,118**
Beverages (excluding Tea & Coffee) and Tobacco	**2,996,359**	**1,825,975**	**4,822,334**
Textiles	**12,343,619**	**5,944,295**	**18,287,914**
Leather and Leather products	**459,560**	**101,090**	**560,650**
Wood and Wood Products	**1,818,256**	**118,506**	**1,936,762**
Paper and Paper Products	**4,551,877**	**526,687**	**5,078,564**
Petroleum (non-infra), Coal Products (non-mining) and Nuclear Fuels	**-**	**205,736**	**205,736**
Chemicals and Chemical Products (Dyes, Paints, etc.)	**42,661,110**	**47,394,361**	**90,055,471**
Rubber, Plastic and their Products	**23,449,729**	**7,327,157**	**30,776,886**
Glass & Glassware	**302,944**	**1,245,821**	**1,548,765**
Cement and Cement Products	**8,440,373**	**3,785,119**	**12,225,492**
Basic Metal and Metal Products	**23,108,539**	**16,552,600**	**39,661,139**
All Engineering	**39,334,899**	**61,651,653**	**100,986,552**
Vehicles, Vehicle Parts and Transport Equipments	**29,453,838**	**19,304,720**	**48,758,558**
Gems and Jewellery	**-**	**2,512,533**	**2,512,533**
Construction	**11,073,163**	**24,461,793**	**35,534,956**
Infrastructure	**61,095,410**	**47,574,217**	**108,669,627**
NBFCs and trading	**236,828,656**	**67,325,410**	**304,154,066**
Banking and finance	**287,191,898**	**188,665,721**	**475,857,619**
Computer Software	**7,870,852**	**22,503,305**	**30,374,157**
Professional Services	**43,451,870**	**222,975,743**	**266,427,613**
Commercial Real Estate	**105,381,281**	**3,502,264**	**108,883,545**
Other Industries	**39,691,523**	**73,327,122**	**113,018,645**
Retail	**82,374,201**	**13,495,506**	**95,869,707**
Others*	**394,982,262**	**–**	**394,982,262**
Total	**1,473,209,469**	**837,495,563**	**2,310,705,032**

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*

Basel III – Pillar 3 disclosures of India Branches for the year ended 31 March 2022 *(Continued)*

3 Credit risk *(Continued)*

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

Industry type distribution of exposures as at 31 March 2021

(Rs '000)

Industry	Funded	Non Funded	Total
Mining and Quarrying	–	934	934
Food Processing	9,052,312	3,371,507	12,423,819
Beverages (excluding Tea & Coffee) and Tobacco	3,483,062	3,634,538	7,117,600
Textiles	8,755,502	4,397,620	13,153,122
Leather and Leather products	181,423	41,281	222,704
Wood and Wood Products	1,390,984	305,538	1,696,522
Paper and Paper Products	3,148,838	686,247	3,835,085
Petroleum (non-infra), Coal Products (non-mining) and Nuclear Fuels	666,091	243,116	909,207
Chemicals and Chemical Products (Dyes, Paints, etc.)	37,344,422	49,413,306	86,757,728
Rubber, Plastic and their Products	14,118,515	4,450,129	18,568,644
Glass & Glassware	53,182	1,434,167	1,487,349
Cement and Cement Products	6,715,890	3,869,816	10,585,706
Basic Metal and Metal Products	24,609,149	13,880,469	38,489,618
All Engineering	35,774,227	60,512,936	96,287,163
Vehicles, Vehicle Parts and Transport Equipments	22,145,445	21,123,043	43,268,488
Gems and Jewellery	41	1,337,918	1,337,959
Construction	5,556,935	19,965,477	25,522,412
Infrastructure	44,740,254	28,931,249	73,671,503
NBFCs and trading	152,317,399	51,845,338	204,162,737
Banking and finance	326,924,085	167,746,937	494,671,022
Computer Software	1,156,461	20,120,988	21,277,449
Professional Services	37,784,164	201,281,386	239,065,550
Commercial Real Estate	134,943,772	2,985,971	137,929,743
Other Industries	92,194,342	54,276,954	146,471,296
Retail	79,006,378	13,390,320	92,396,698
Others*	426,662,478	–	426,662,478
Total	1,468,725,351	729,247,185	2,197,972,536

* *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 2022

(Rs'000)

	Cash & balances with RBI	Balance with Banks & Money at call & Short Notice	Investments	Advances	Fixed Assets	Other Assets
1 day	**19,972,162**	**8,781,047**	**659,512,013**	**10,694,373**	**–**	**12,420,326**
2 to 7 days	**-**	**171,418,427**	**59,049,168**	**21,507,616**	**–**	**6,208,495**
8 to 14 days	**-**	**-**	**518,746**	**41,516,333**	**–**	**1,177,898**
15 to 30 days	**64,204,352**	**10,634,130**	**32,855,055**	**65,319,708**	**–**	**8,262,933**
31 days & upto 3 months	**40,300,820**	**6,675,001**	**86,637,729**	**11,396,672**	**–**	**12,849,441**
Over 3 months and upto 6 months	**16,498,602**	**9,175,016**	**12,235,198**	**88,004,454**	**–**	**7,811,290**
Over 6 months and upto 1 year	**18,621,776**	**3,084,314**	**27,274,288**	**104,174,569**	**–**	**23,832,259**
Over 1 year and upto 3 years	**24,739,140**	**4,097,529**	**40,724,833**	**173,412,641**	**–**	**47,845,617**
Over 3 years and upto 5 years	**6,343,282**	**1,050,634**	**8,640,914**	**172,799,494**	**–**	**30,000,929**
Over 5 years	**88,460,264**	**14,787,745**	**26,704,449**	**129,636,628**	**7,400,876**	**33,831,634**
TOTAL	**279,140,398**	**229,703,843**	**954,152,393**	**818,462,488**	**7,400,876**	**184,240,822**

Basel III – Pillar 3 disclosures of India Branches for the year ended 31 March 2022 *(Continued)*

3 Credit risk *(Continued)*

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

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

As at 31 March 2021 (Rs'000)

	Cash & balances with RBI	Balance with Banks & Money at call & Short Notice	Investments	Advances	Fixed Assets	Other Assets
1 day	28,720,294	14,093,860	624,346,414	5,243,861	–	311,694
2 to 7 days	–	162,269,385	79,279,688	9,252,014	–	12,432,893
8 to 14 days	–	–	6,884,449	18,697,172	–	3,365,600
15 to 30 days	79,170,903	–	2,748,090	59,557,787	–	12,491,896
31 days & upto 3 months	57,535,490	–	39,156,635	78,470,728	–	23,108,479
Over 3 months and upto 6 months	15,448,505	–	9,741,562	82,034,688	–	25,723,309
Over 6 months and upto 1 year	14,868,767	–	31,473,922	72,921,889	–	29,278,085
Over 1 year and upto 3 years	29,881,581	6,214,350	33,789,376	145,020,614	–	66,978,313
Over 3 years and upto 5 years	18,117,049	–	5,996,407	136,396,760	–	25,057,067
Over 5 years	91,980,025	–	1,526,058	109,135,229	7,781,039	22,956,368
TOTAL	335,722,614	182,577,595	834,942,600	716,730,742	7,781,039	221,703,705

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

(Rs'000)

	As at 31 Mar 2022	As at 31 Mar 2021
Substandard	**1,502,617**	4,742,888
Doubtful 1	**1,670,295**	1,627,210
Doubtful 2	**1,427,225**	403,560
Doubtful 3	**311,560**	1,885,817
Loss	**1,526,288**	466,564
Total	**6,437,985**	9,126,039

(v) Net NPAs

The net NPAs are Rs. 1,501 million (previous year: Rs. 2,902 million). Please see table (vi) below.

(vi) Movement of NPAs for the bank

(Rs'000)

			As at 31 March 2022
	Gross NPA's	**Provision***	**Net NPA**
Opening balance as at 1 April 2021	**9,126,039**	**6,223,749**	**2,902,290**
Additions during the period	**4,380,136**	**2,492,220**	**1,887,916**
Reductions during the period	**(7,068,190)**	**(3,778,965)**	**(3,289,225)**
Closing balance as at 31 March 2022	**6,437,985**	**4,937,004**	**1,500,981**

* includes movement of Interest Capitalisation–Restructured NPA Account

(Rs'000)

			As at 31 March 2021
	Gross NPA's	Provision	Net NPA
Opening balance as at 1 April 2020	6,693,266	5,431,346	1,261,920
Additions during the period	5,926,666	3,336,872	2,589,794
Reductions during the period	(3,493,893)	(2,544,469)	(949,424)
Closing balance as at 31 March 2021	9,126,039	6,223,749	2,902,290

(vii) NPA ratios for the bank

	As at 31 March 2022	As at 31 March 2021
Gross NPAs to gross advances	**0.78%**	1.26%
Net NPAs to net advances	**0.18%**	0.40%

(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 2022 are Rs. 2 (previous year: Rs. 2). This represents preference/equity share investments which have been written down to Rs.2.

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 2022 *(Continued)*

3 Credit risk *(Continued)*

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

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

(Rs'000)

	As at 31 Mar 2022	As at 31 March 2021
Opening balance	**665**	71,960
Provisions during the year	**16,892,029**	–
Write offs during the year	–	–
Write back of excess provisions during the year	–	(71,295)
Closing balance	**16,892,694**	665

(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 2022 (Rs '000)

		NPA	Past Due Loans	Provision*	Specific Provision during the year	Write off during the year
1.	Agriculture	**848,436**	**–**	**796,907**	**40**	**–**
2.	Advances to Industries sector	**542,294**	**907,851**	**542,292**	**5,695**	**223,205**
	of which:					
	2.1 Chemicals and Chemical Products	122,405	56,375	122,404	2,636	9,709
	2.2 All Engineering	0	98,709	–	–	–
	2.3 Infrastructure	134,740	–	134,740	6	–
	2.4 Paper and Paper Products	281,441	16,093	281,441	20	–
	2.5 Textile	195	118,299	195	3,031	213,491
3.	Services	**1,929,778**	**50,522**	**2,044,683**	**1,027,012**	**71,326**
	of which:					
	3.1 Trade	1,798,707	42,330	1,904,637	1,013,543	–
	3.2 Commercial Real Estate	–	–	–	–	70,701
	3.3 NBFC	77,266	–	86,241	–	–
4.	Retail	**3,117,477**	**1,969,111**	**1,553,122**	**1,459,473**	**2,047,529**
	Total	**6,437,985**	**2,927,484**	**4,937,004**	**2,492,220**	**2,342,060**

* includes Interest Capitalisation–Restructured NPA Account

As at 31 March 2021 (Rs '000)

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

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

(Rs '000)

	For the period ended 31 Mar 2022	For the year ended 31 Mar 2021
Write offs	**1,893,766**	1,925,820
Recoveries	**685,775**	240,611

Basel III – Pillar 3 disclosures of India Branches for the year ended 31 March 2022 *(Continued)*

3 Credit risk *(Continued)*

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

(xiii) Ageing of past due loans for the bank

(Rs '000)

	As at 31 Mar 2022	As at 31 Mar 2021
Overdue less than 30 days	**2,527,503**	1,430,527
Overdue for 30 to 60 days	**271,583**	273,532
Overdue for 60 to 90 days	**128,398**	124,525
Total	**2,927,484**	1,828,584

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

As at 31 March 2022

(Rs '000)

	NPA	Past Due Loan
Overseas	–	–
Domestic	**6,437,985**	**2,927,484**
Total	**6,437,985**	**2,927,484**

As at 31 March 2021

(Rs '000)

	NPA	Past Due Loan
Overseas	–	–
Domestic	9,126,039	1,828,584
Total	9,126,039	1,828,584

4. Disclosures for portfolios under the Standardised approach

The Bank uses the following External Credit Assessment Institutions (ECAIs) approved by RBI to calculate its capital adequacy requirements under the Standardised approach to credit risk for Corporate, Bank and Sovereign counterparties.

Domestic ECAIs for external ratings of Indian Corporates:

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 Ratings & Research Limited (ACUITE)
g) Infomerics Valuation and Rating Pvt Ltd. (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 accordance with RBI Master Circular on Basel-III Capital Regulations dated 01 July 2015.

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

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

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

* As per RBI guidelines dated 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.

Basel III – Pillar 3 disclosures of India Branches for the year ended 31 March 2022 *(Continued)*

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

In August 2016, RBI issued guidelines for revising the risk weights for unrated exposures to Corporates, AFCs, and NBFC-IFCs having aggregate exposure from banking system > INR 200 crore to 150% from 100%. The implementation of these guidelines was deferred by RBI till 31 March 19, however the same is applicable from April 2019.

The claims on banks incorporated in India and foreign banks branches in India, excluding investment in equity shares and other instruments eligible for capital status (*Investments referred to in paragraph 5.6.1 (i) & (ii) of RBI Master circular on Basel-III Capital Regulations dated 01 July 2015*), are risk weighted as shown below:

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

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 2022	As at 31 March 2021
Below 100% risk weight	**1,500,203,729**	1,598,603,985
100% risk weight	**321,696,436**	341,264,775
Above 100% risk weight	**353,094,675**	234,159,017
Deductions*	**(422,836)**	(325,468)
Total	**2,174,572,004**	2,173,702,309

* Deduction represents amounts deducted from Tier I Capital

Note: *Exposure comprises of Loans & Advances, Credit equivalent of guarantees, acceptances, letter of credit, other Non-Market Related off balance sheet obligations, credit equivalent of derivative exposures post Credit Risk Mitigants (CRM).*

* *As per RBI guidelines as on 01 March 2016, DTA which was deducted from CET1 capital, can be recognised in the CET1 up to a limit of 10% of Bank's CET1 capital (after application of regulatory adjustments mentioned in RBI Master Circular on Basel-III Capital Regulations dated 01 July 2015). Currently DTA is 1.12% of Bank's CET1 capital. Accordingly, there is no deduction on account of DTA for 31 Mar 2022.*

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.

Basel III – Pillar 3 disclosures of India Branches for the year ended 31 March 2022 *(Continued)*

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

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

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

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

Valuation strategies are established to monitor collateral mitigants to ensure that they will continue to provide the anticipated secure secondary repayment source. For mortgages, the credit policy clearly outlines the acceptable Loan to value ratio (LVR) for different types of properties. The maximum LVR offered to customers has been capped at 80% for loans upto INR 7.5 Mn and 75% or lower for loans greater than INR 7.5 Mn. For unionized staff loans (under which maximum loan amount is capped at INR 2 Mn), maximum LVR can extend up to 90%. 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 accordance 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), National Credit Guarantee Trustee Ltd (NCGTC), 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 2022	As at 31 March 2021
Exposure covered by Financial Collaterals	**135,710,192**	23,944,759
Exposure covered by Guarantees	**78,433,289**	55,879,810

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.

Basel III – Pillar 3 disclosures of India Branches for the year ended 31 March 2022 *(Continued)*

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

- 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.

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 accordance 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 Ratings & Research Limited (ACUITE)
g) Infomerics Valuation and Rating Pvt Ltd. (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 Master Direction on securitisation of standard assets on 24 September 2021. The Bank has not originated any securitisation transaction as on 31 March 2022.

(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. 70,664 million (market value) as at 31 March 2022 (previous year: Rs. 74,143 million) which are classified under Available for Sale category. These attracts Specific Risk 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 Specific risk 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.

Basel III – Pillar 3 disclosures of India Branches for the year ended 31 March 2022 *(Continued)*

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

Securitisation exposures broken down into different risk weight bands

(Rs'000)

		As at 31 Mar 2022		As at 31 Mar 2021	
Risk weight bands	**Exposure type**	**Exposure**	**Capital charge**	**Exposure**	**Capital charge**
Less than 100%	Vehicle/Auto loans	**68,882,544**	**1,922,491**	71,637,981	2,633,168
At 100%	Vehicle/Auto loans	**–**	**–**	–	–
More than 100%	Vehicle/Auto loans	**–**	**–**	–	–
Total		**68,882,544**	**1,922,491**	71,637,981	2,633,168

		As at 31 Mar 2022		As at 31 Mar 2021	
Risk weight bands	**Exposure type**	**Exposure**	**Capital charge**	**Exposure**	**Capital charge**
Less than 100%	Housing loan	**1,711,019**	**82,544**	2,408,197	140,688
At 100%	Housing loan	**–**	**–**	–	–
More than 100%	Housing loan	**70,650**	**6,359**	97,480	8,773
Total		**1,781,669**	**88,903**	2,505,677	149,461

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 risk 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 Market & Securities Services (MSS) and Market Treasury (MKTY) 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 model output is validated by back-testing the daily Actual and Hypothetical profit and loss results against the corresponding VaR numbers.

Market Risk Limits are proposed by Local MSS & MKTY. 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 MSS, 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.

Basel III – Pillar 3 disclosures of India Branches for the year ended 31 March 2022 *(Continued)*

7. Market risk in trading book *(Continued)*

(i) Capital requirements for market risk for the bank

(Rs'000)

Standardised Duration Approach	As at 31 March 2022	As at 31 March 2021
Interest rate risk	**29,141,412**	24,690,224
Foreign exchange risk	**3,341,250**	3,163,050
Equity risk	**814,978**	669,362
Securitisation exposure	**3,394,227**	4,445,251
Capital requirements for market risk	**36,691,867**	32,967,887

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. Instances of non-Compliance 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 both financial and non-financial that we face in our business and operational activities. It is used throughout the Group, including all subsidiaries, legal entities, regions, Global Businesses, Functions and HSBC Digital Business Services (DBS).

The RMF is designed to ensure we:

- Manage risk in the consistent manner 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 then make better decisions and take appropriate risks as a result
- Understand and comply with relevant legal and regulatory requirements
- 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 Global Businesses, legal entities, regions and roles.

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

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 at an entity level. This governance meeting is the apex risk management body of the bank and reports to the EXCO. INM Operational Risk Working Group (ORWG) is responsible for providing oversight and management of the Non Financial Risk and Controls in INM and reports into the RMM.

At individual business level, there are Business Control Committees (BCC)/ Risk Management forum that are responsible for oversight and management of all risks.

Three Lines of Defence (3LOD) Overview

The three Lines of Defence ("LOD") model is used to define roles responsibilities and clear accountabilities 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 and a positive risk culture.

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. However, any such dual accountability cannot create unmanageable conflicts for the responsible person, particularly if they have regulatory accountability.

Basel III – Pillar 3 disclosures of India Branches for the year ended 31 March 2022 *(Continued)*

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

First Line of Defence

The First LOD has ultimate ownership for risk and controls including read across assessments of identified issues, events and near misses and delivery of good conduct outcomes. The First LOD includes four key roles: Risk Owners, Control Owners, Business Service 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 accordance 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 appetite.
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. DBS, third parties)
5. Monitoring and assessing their risk exposure over time, and taking action as required
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 good conduct outcomes
7. Escalating risks to both the appropriate accountable individual and through governance (as required) in a timely manner 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. Being able to clearly articulate and evidence their key risks, key controls, and remediation to fix key controls or otherwise mitigate inherent risks if key controls are not working effectively, and the mechanisms they use to manage their risk
10. Ensuring that appropriate recovery and resolution capabilities, arrangements and resources are operationalised in a manner that is consistent with regulatory expectations with regards to recovery and resolvability. Must also ensure activities are managed so that they do not hinder the ability of HSBC to be resolved

Business Service Owners are responsible for overseeing and managing each of HSBC's critical and material Business Services end-to-end, including the risk, control effectiveness and resilience of that service. Their key responsibilities include:

1. Ownership of the end-to-end delivery of a service to our customers, including the risk, control effectiveness and resilience of that service.
2. This is done by managing input from multiple process owners, risk owners and control owners, both internal and external service providers, to understand the entirety of the service.
3. Accountable for ensuring process maps for the end-to-end critical and material business services (including critical assets) are up-to-date and signed-off.
4. Provide oversight of the end-to-end risk and control environment for a Business Service.
5. Report the position of the service including the risks and control status to RMM.
6. Own and develop appropriate plans to ensure service continuity and effective internal & external communications during disruption.
7. Establishing a "Responsible, Accountable, Consulted and Informed" (RACI) matrix and Service Level Agreements with internal and external service providers that ensure dependencies are managed within the Service Impact Tolerance.
8. Prioritise and de-conflict change to ensure the appropriate balance of cost effectiveness and resilience.
9. Ensure the business service is designed to appropriately deliver and/or comply with recovery and resolution capabilities and/or requirements

The responsibilities listed above represent the Business Service Owners role target state which is being implemented through a phased approach.

There is no requirement for our regions and entities to have standalone Business Service Owners outside of those assigned by the Global Businesses. BSO requirements apply to our most critical and material business services globally. Where there is a local regulatory requirement for a Business Service Owner, regional heads of business should be engaged to calibrate requirements and if necessary ensure that the role holder is integrated in the Global Business Service Owner framework.

Control Owners are accountable for operating controls on behalf of Risk Owners/ Business Service 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 the control scope 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

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

Basel III – Pillar 3 disclosures of India Branches for the year ended 31 March 2022 *(Continued)*

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

First Line of Defence *(Continued)*

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 "Responsible, Accountable, Consulted and Informed" (RACI) 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. Support Control Owners to avoid poor, inefficient or excessive controls, related tasks and behaviours
8. Advise 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 sitting within Global Functions, provide subject matter expertise, advice, guidance and review and challenge of 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 and Resilience Risk (ORR) function and Second LoD Assurance teams.

Operational and Resilience Risk is a combined Risk Stewardship and Oversight function, which ensures governance and management of Operational, Resilience Risk and Operational Resilience through the delivery and embedding of effective frameworks, and continuous oversight and assurance of end-to-end processes, risks and controls. The effectiveness of First LOD Risk and Control owners, and 2LOD Risk Stewards in managing HSBC's Non-Financial Risk (NFR) processes and practices is reported through Risk Management Meetings (RMMs) and the Non-Financial Risk Management Board (NFRMB).

Chief Risk Officers are accountable for the holistic risk oversight on an enterprise wide basis for areas within their remit, including the impact on conduct outcomes and the provision of advice, guidance and challenge to the first LoD for key business decisions including:

1. Driving an inclusive risk culture, promoting desired behaviours and good conduct outcomes
2. Ensuring the monitoring and management of risks in accordance with our risk appetite and, where necessary, appropriate risk management actions are taken in a timely manner
3. Ensuring any material risks identified are being proactively managed by the First LOD, including actions to limit the impacts on our business and customers
4. Ensuring holistic challenge and oversight of the risks associated with change programmes and new or materially changed products or services
5. Understanding the risk and control profile, including impacts of external environment changes, emerging risks and changes to the business strategy
6. Developing robust, consistent risk management information requirements to ensure adequate information to steer the business through informed risk decisions and recommend and drive tactical interventions to improve service delivery and operational efficiency
7. Applying appropriate and timely judgement to determine risks, issues and events that require escalation.

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 including to the Country CRO in the oversight of country risks and in meeting local regulatory expectations. Where there is no Risk Steward in Region, then the Global Risk Steward retains responsibility including to the Regional CRO and Country CRO in the oversight of country risks and in meeting local regulatory expectations. In instances where regulatory expectations differ, the in country approach should be agreed with the regional risk steward alongside the Country CRO, to meet these expectations.

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

1. Providing 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. Writing, owning and monitoring 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. Reporting on the risk and control profile, including impacts of external environment changes, emerging risks and changes to the business strategy
5. Working with the business to understand the impact on the risk profile of emerging risks, change programmes and new or changed products and services, which may require changes to controls, resources, products and business operations to ensure they remain within appetite

Basel III – Pillar 3 disclosures of India Branches for the year ended 31 March 2022 *(Continued)*

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

Second Line of Defence *(Continued)*

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. Defining 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. Providing Challenge and oversight of Risk and Control Owners on risk and control management, including inherent risk, residual risk, control effectiveness ratings, issues, actions and events
10. Providing subject matter expertise, advice and effective challenge to Business Service Owners and Process Owners on the association of risks and controls to critical / material business services, including supporting processes

Third Line of Defence

Third LOD is Internal Audit which 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 reporting 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 2022	As at 31 March 2021
Capital required for Operational Risk (Basic Indicator Approach)	**23,071,259**	18,867,492

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

Qualitative Disclosure

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)/Markets Treasury (MKTY) 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 MKTY; and
- To ensure that all market interest rate risk that can be hedged is effectively transferred from the global businesses to MKTY

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 also forms a part of the Pillar 2 risk assessment as part of the Bank's Internal Capital Adequacy Assessment Process and capital is maintained, if required, based on this assessment.

Basel III – Pillar 3 disclosures of India Branches for the year ended 31 March 2022 *(Continued)*

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

Strategy and Process

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

The transfer of interest risk to the MKTY is achieved through a formal transfer pricing framework wherein a series of internal deals are executed between the business units and MKTY. 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.

The bank uses following tools for analysis-

Gap analysis: The interest rate gap or mismatch risk is measured by calculating gaps over different time intervals at a given date. This static analysis measures mismatches between rate sensitive liabilities ("RSL") and rate sensitive assets ("RSA"). The report is prepared monthly by grouping rate sensitive liabilities, assets and off-balance sheet positions into time buckets according to residual maturity or next re-pricing period, whichever is earlier. The difference between RSA and RSL for each time bucket signifies the gap in that time bucket. These are monitored through the Traditional Gap Analysis/Duration Gap Analysis (TGA / DGA) reports in line with RBI guidelines. The interest rate sensitivity reports are submitted to the RBI and tabled at the ALCO on a monthly basis.

Economic Value of Equity sensitivity (EVE): Change in the interest rates have a long-term impact on the capital position of the Bank, as the economic value of the Bank's assets, liabilities and off-balance sheet positions get affected by these rate changes which impact the present value and timing of future cash flows. The EVE sensitivity is tabled at the ALCO on a quarterly basis.

Net Interest Income sensitivity (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). This indicates whether the Bank is in a position to benefit from rising interest rates by having a positive gap (RSA > RSL) or whether it is in a position to benefit from declining interest rates by having a negative gap (RSL > RSA. The NII sensitivity is tabled at the ALCO on a quarterly basis.

Quantitative Disclosure

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

INR Mn	**EVE Sensitivity (31-March-2022)**		**EVE Sensitivity (31-March-2021)**	
Currency	**+200 basis points**	**-200 basis points**	**+200 basis points**	**-200 basis points**
INR	**(5,928)**	**7,138**	(5,957)	7,130
USD	**11**	**(22)**	(57)	30
Others	**209**	**(111)**	(43)	8
Total Sensitivity	**(5,708)**	**7,005**	(6,057)	7,168
Total Capital	**270,387**		244,231	
Sensitivity as % of capital	**2.11%**	**2.59%**	2.48%	2.94%
Limits	**18%**		18%	

(ii) Impact on Earnings (NII)

INR Mn	**NII sensitivity (31-March-2022)**		**NII sensitivity (31-March-2021)**	
Currency	**+100 basis points**	**-100 basis points**	**+100 basis points**	**-100 basis points**
INR	**370**	**(365)**	1,533	(1,524)
USD	**1,954**	**(1,954)**	409	(426)
Others	**32**	**(32)**	54	(27)
Total	**2,356**	**(2,351)**	1,996	(1,977)

NII sensitivity has decreased for INR currency due to decrease in balances for reverse repos and bank lending, partially offset by increase in customer lending and repos. NII sensitivity has increased for USD currency due to increase in balances for Intercompany loans and bank lending.

Basel III – Pillar 3 disclosures of India Branches for the year ended 31 March 2022 *(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: RBI has issued guidelines on "Bilateral Netting of Qualified Financial Contracts - Amendments to Prudential Guidelines" on March 30th, 2021 effective immediately. Accordingly, capital charge for Market related Off-balance sheet instruments and CVA has been computed considering exposure on netted basis in accordance with the extant guidelines.

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 accordance 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 2022**		As at 31 March 2021	
	Notional	**Current credit exposures**	Notional	Current credit exposures
Currency Swaps	**374,145,279**	**5,641,399**	353,523,099	9,923,258
Forward Contracts	**2,434,840,426**	**18,763,552**	1,385,215,096	11,419,190
FX options	**536,511,373**	**5,469,598**	388,371,162	3,255,282
Interest rate options	**875,942**	**107**	355,741	1,008
Interest Rate swaps	**3,850,596,016**	**22,938,691**	3,939,426,609	38,642,545
Single currency Floating Floating	**–**	**12,941**	–	17,696
Forward Rate Agreements	**109,317,810**	**2,012,868**	74,347,430	305,996
Grand Total	**7,306,286,846**	**54,839,156**	6,141,239,137	63,564,975

Note: The above does not include Exposure to QCCP.

Basel III – Pillar 3 disclosures of India Branches for the year ended 31 March 2022 *(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 2022	At 31 March 2021
	On-balance sheet exposures		
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	**2,000,502**	1,842,744
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	**(423)**	(326)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)**	**2,000,079**	1,842,418
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	**60,763**	70,927
5	Add-on amounts for PFE associated with all derivatives transactions	**395,429**	425,522
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)**	**456,192**	496,449
	Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	**364,523**	310,044
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)**	**364,523**	310,044
	Other off-balance sheet exposures		
17	Off-balance sheet exposure at gross notional amount	**1,786,315**	1,585,308
18	Adjustments for conversion to credit equivalent amounts	**(1,259,869)**	(1,136,239)
19	**Off-balance sheet items (sum of lines 17 and 18)**	**526,446**	449,069
	Capital and total exposures		
20	**Tier 1 capital**	**242,401**	216,634
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	**3,347,240**	3,097,980
	Leverage ratio		
22	**Basel III leverage ratio (per cent)**	**7.24%**	6.99%

Comparison of accounting assets vs leverage ratio exposure measure:

(Rs in Million)

Sr No	Item	At 31 March 2022	At 31 March 2021
1	Total consolidated assets as per published financial statements	**2,473,101**	2,299,458
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	**348,116**	349,779
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)	**526,446**	449,069
7	Other adjustments	**(423)**	(326)
	Total Exposure (point 21 in Table 1)	**3,347,240**	3,097,980

Note: The consolidated leverage ratio is 7.37% as on 31 March 2022.

Basel III – Pillar 3 disclosures of India Branches for the year ended 31 March 2022 *(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))***	197,351	200,774	**B1+B2+ B3+B4+ B5+B6+B7**
3	Accumulated other comprehensive income (and other reserves)	481	481	**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	242,824	247,710	
	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	150	
10	Deferred tax assets	–	2	
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	197	197	
15	Defined-benefit pension fund net assets	79	79	
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 adjustments7 (26a+26b+26c+26d)	–	–	
26a	of which: Investments in the equity capital of the unconsolidated insurance subsidiaries	–	–	

Basel III – Pillar 3 disclosures of India Branches for the year ended 31 March 2022 *(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
26b	of which: Investments in the equity capital of unconsolidated non-financial subsidiaries8	1	1	
26c	of which: Shortfall in the equity capital of majority owned financial entities which have not been consolidated with the bank9	–	–	
26d	of which: Unamortised pension funds expenditures	–	–	
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	–	–	
28	**Total regulatory adjustments to Common equity Tier 1**	**423**	**429**	
29	**Common Equity Tier 1 capital (CET1)**	**242,401**	**247,281**	
	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)**	**242,401**	**247,281**	
	Tier 2 capital: instruments and provisions	–	–	

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 2022 *(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
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)	27,986	27,987	D1+D2+D3+ C2*45%
51	**Tier 2 capital before regulatory adjustments**	**27,986**	**27,987**	
	Tier 2 capital: regulatory adjustments	**–**	**–**	
52	Investments in own Tier 2 instruments	–	–	
53	Reciprocal cross-holdings in Tier 2 instruments	–	–	
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	–	–	
55	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	–	–	
56	National specific regulatory adjustments (56a+56b)	–	–	
56a	of which: Investments in the Tier 2 capital of unconsolidated subsidiaries	–	–	
56b	of which: Shortfall in the Tier 2 capital of majority owned financial entities which have not been consolidated with the bank	–	–	
	Regulatory Adjustments Applied To Tier 2 in respect of Amounts Subject to Pre-Basel III Treatment	–	–	
	of which:	–	–	
	of which:	–	–	
57	**Total regulatory adjustments to Tier 2 capital**	**–**	**–**	
58	**Tier 2 capital (T2)**	**27,986**	**27,987**	
58a	**Tier 2 capital reckoned for capital adequacy**	**27,986**	**27,987**	
58b	**Excess Additional Tier 1 capital reckoned as Tier 2 capital**	**–**	**–**	
58c	**Total Tier 2 capital admissible for capital adequacy (58a + 58b)**	**27,986**	**27,987**	
59	**Total capital (TC = T1 + T2) (45 + 58c)**	**270,387**	**275,268**	
	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)**	**1,638,450**	**1,647,259**	
60a	of which: total credit risk weighted assets	1,195,760	1,204,569	
60b	of which: total market risk weighted assets	271,792	271,792	
60c	of which: total operational risk weighted assets	170,898	170,898	
	Capital ratios			

Basel III – Pillar 3 disclosures of India Branches for the year ended 31 March 2022 *(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
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	14.79%	15.01%	
62	Tier 1 (as a percentage of risk weighted assets)	14.79%	15.01%	
63	Total capital (as a percentage of risk weighted assets)	16.50%	16.71%	
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation and countercyclical buffer requirements, expressed as a percentage of risk weighted assets)	**10.00%**	**10.00%**	
65	of which: capital conservation buffer requirement	2.50%	2.50%	
66	of which: bank specific countercyclical buffer requirement	–	–	
67	of which: G-SIB buffer requirement	2.00%	2.00%	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	9.29%	9.51%	
	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)	–	–	
	Applicable caps on the inclusion of provisions in Tier 2	–	–	
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	7,352	7,353	**D1+D2**
77	Cap on inclusion of provisions in Tier 2 under standardised approach	14,947	15,057	
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)	–	–	

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 2022 *(Continued)*

13. Composition of Capital – Reconciliation

(Rs in Million)

		Balance sheet as in financial statements As on reporting date	Balance sheet under regulatory scope of consolidation As on reporting date	Reference No DF-12
A	**Capital & Liabilities**			
i	Paid-up Capital	44,992	46,455	A
	Reserves & Surplus	281,780	285,236	
	a. Statutory Reserve	84,346	84,812	B1
	b. Capital Reserve - Surplus on sale of Immovable assets	6,447	6,447	B2
	c. Capital Reserves	13,262	13,262	B3
	d. Remittable surplus retained in India for CRAR purposes	88,310	88,310	B4
	e.(i). Revaluation Reserve eligible for Tier 1	1,068	1,068	C1
	e.(ii) Revaluation Reserve eligible for Tier 2	3,445	3,445	C2
	f. Investment Reserve	–	–	D1
	g. Specific Reserve	4,987	5,005	B5
	h. Investment Fluctation Reserve (refer to schedule 18 note 5.5)	19,083	19,083	D3
	h. Balance in Profit & Loss Account	60,832	61,820	
	i. General Reserve	–	17	B6
	j. Security Premium		1,935	B7
	k. Impairment Reserve	–	33	
	Minority Interest	–	–	
	Total Capital	**326,772**	**331,691**	
ii	Deposits	1,854,817	1,854,817	
	of which: Deposits from banks	11,830	11,830	
	of which: Customer deposits	1,842,988	1,842,988	
	of which: Other deposits (pl. specify)	–	–	
iii	Borrowings	121,023	125,459	
	Borrowings in India	114,269	118,706	
	of which: From RBI	–	–	
	of which: From banks	–	–	
	of which: From other institutions & agencies	114,269	118,706	
	Borrowings outside India	6,754	6,754	
	of which: Others (pl. specify)	–	–	
	of which: Capital instruments	–	–	
iv	Other liabilities & provisions	170,489	170,506	
	of which: Provisions towards Standard Assets and Country risk	7,352	7,353	D2
	Total Capital and Liabilities	**2,473,101**	**2,482,474**	
B	**Assets**		–	
i	Cash and balances with Reserve Bank of India	279,140	279,153	
ii	Balance with banks and money at call and short notice	229,704	230,107	
iii	Investments:	954,152	954,362	
	Investments in India	852,029	852,239	
	of which: Government securities	747,340	747,340	
	of which: Other approved securities	–	–	
	of which: Shares	136	136	
	of which: Debentures & Bonds	34,157	34,157	
	of which: Subsidiaries / Joint Ventures / Associates	1	18	
	of which: Others (Commercial Papers, Mutual Funds etc.)	70,395	70,588	
	Investments Outside India	102,123	102,123	
	Of which: Government securities (Including local authorities)	102,123	102,123	

Basel III – Pillar 3 disclosures of India Branches for the year ended 31 March 2022 *(Continued)*

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

(Rs in Million)

		Balance sheet as in financial statements As on reporting date	Balance sheet under regulatory scope of consolidation As on reporting date	Reference No DF-12
iv	Loans and advances	818,462	827,044	
	of which: Loans and advances to banks	–	–	
	of which: Loans and advances to customers	818,462	827,044	
v	Fixed assets	7,401	7,405	
vi	Other assets	184,241	184,402	
	of which: Goodwill and intangible assets	–	4	
	of which: Deferred tax assets	2,689	2,691	
vii	Goodwill on consolidation	–	–	
viii	Debit balance in Profit & Loss account	–	–	
	Total Assets	**2,473,101**	**2,482,474**	

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 2022 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 2022 is Rs.136 million.
2. All equity investments are held in private limited companies.
3. The cumulative realised gain on sale of shares is INR 10,544 (000's) for the period ended 31 March 2022.
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 2022 is Rs. 2,385 million. The difference between break-up value and current cost of equity investment is Rs. 2,249 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. 815 million (previous year Rs. 670 million)