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Issued by The Hongkong and Shanghai Banking Corporation Limited in Bangladesh.



FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

Bangladesh Branches

Independent auditor's report to the management of The Hongkong and Shanghai Banking Corporation Limited (HSBC), Bangladesh Branches

Report on the audit of the financial statements

Opinion

We have audited the financial statements of The Hongkong and Shanghai Banking Corporation Limited (HSBC), Bangladesh Branches (the "Bank"), which comprise the balance sheet as at 31 December 2021 and profit and loss account, cash flow statement and statement of changes in equity for the year then ended, summary of significant accounting policies, other explanatory notes and annexures thereto.

In our opinion, the accompanying financial statements of the Bank give a true and fair view of the financial position of the Bank as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as explained in note # 3 and comply with the Bank Company Act, 1991 (as amended up to date), rules and regulations issued by the Bangladesh Bank and other applicable laws and regulations.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and requirements of Bangladesh Bank, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the Institute of Chartered Accountants of Bangladesh (ICAB) Bye-laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Management is responsible for the other information. The other information comprises all the information other than the financial statements and our auditors' report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of management and those charged with governance for the financial statements and internal controls

Management is responsible for the preparation and fair presentation of the financial statements of the Bank in accordance with IFRSs as explained in note # 3, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Bank Company Act, 1991 (as amended up to date), and the Bangladesh Bank Regulations require the Management to ensure effective internal audit, internal control and risk management functions of the Bank. The Management is also required to make a self-assessment on the effectiveness of anti-fraud internal controls and report to Bangladesh Bank on instances of fraud and forgeries.

In preparing the 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. Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the 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 ISAs 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 financial statements.

As part of an audit in accordance with ISAs, 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.

- 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.

Report on other legal and regulatory requirements

In accordance with the Companies Act, 1994, the Bank Company Act, 1991 and the rules and regulations issued by Bangladesh Bank, we also report that:

(i) 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 made due verification thereof;

(ii) to the extent noted during the course of our audit work performed on the basis stated under the Auditor's Responsibilities section in forming the above opinion on the financial statements and considering the reports of the Management to Bangladesh Bank on anti-fraud internal controls and instances of fraud and forgeries as stated under the Management's Responsibilities for the financial statements and internal control:

a) internal audit, internal control and risk management arrangements of the Bank as disclosed in the financial statements appeared to be materially adequate;

b) nothing has come to our attention regarding material instances of forgery or irregularity or administrative error and exception or anything detrimental committed by employees of the Bank;

(iii) in our opinion, proper books of account as required by law have been kept by the Bank so far as it appeared from our examination of those books;

(iv) the records and statements submitted by the branches have been properly maintained and consolidated in the financial statements;

(v) the balance sheet and profit and loss account together with the annexed notes dealt with by the report are in agreement with the books of account and returns;

(vi) the expenditures incurred were for the purpose of the Bank's business for the year;

(vii) the financial statements have been drawn up in conformity with prevailing rules, regulations and accounting standards as well as related guidance issued by Bangladesh Bank;

(viii) adequate provisions have been made for loans and advances and other assets which are in our opinion, doubtful of recovery;

(ix) the information and explanations required by us have been received and found satisfactory;

(x) we have reviewed over 80% of the risk weighted assets of the Bank and spent over 3,000-person-hours; and

(xi) Capital to Risk-weighted Asset Ratio (CRAR) as required by Bangladesh Bank has been maintained adequately during the year.

Place of Issue: Dhaka
Dated: 24 February 2022

A. Qasem & Co.
Chartered Accountants
Registration No: 2-PC7202

Gorachad Kundu, FCA
Partner
Enrolment No: 1468
DVC No: 2202241468AS244600

Balance Sheet as at 31 December 2021

PROPERTY AND ASSETS	Notes	2021 BDT	2020 BDT
Cash	5		
In hand (including foreign currencies)		1,014,282,551	1,007,157,774
With Bangladesh Bank and its agent bank(s)		25,182,489,035	35,699,330,137
(including foreign currencies)		26,196,771,586	36,706,487,911
Balance with other banks and financial institutions	6		
In Bangladesh		148,079,362	176,491,972
Outside Bangladesh		5,263,547,210	5,445,576,535
		5,411,626,572	5,622,068,507

	Notes	2021 BDT	2020 BDT
Money at call on short notice	7	14,508,089,000	-
Investments	8		
Government securities		65,982,796,977	46,174,440,700
Others		6,000,000	6,000,000
		65,988,796,977	46,180,440,700
Loans and advances	9		
Loans, cash credits, overdrafts etc.		129,644,848,925	145,384,852,759
Bills purchased and discounted		110,232,797,623	91,790,911,555
		239,877,646,548	237,175,764,314
Fixed assets including premises, furniture and fixtures	10	692,225,966	322,474,322
Other assets	11	3,802,965,562	2,874,155,851
Non - banking assets		-	-
Total assets		356,478,122,211	328,881,391,605
LIABILITIES AND CAPITAL			
Liabilities			
Borrowings from other banks, financial institutions and agents	12	144,768,648,476	127,545,263,551
Deposits and other accounts	13		
Current accounts and other accounts		67,868,729,459	66,733,455,918
Bills payable		4,251,956,054	3,021,243,708
Saving deposits		27,242,668,042	26,921,373,957
Term deposits		56,919,473,671	52,496,214,113
		156,282,827,226	149,172,287,696
Other liabilities	14	12,596,678,342	10,131,724,253
Total liabilities		313,648,154,044	286,849,275,500
Capital/shareholders' equity			
Fund deposited with Bangladesh Bank	15	3,167,775,997	3,135,747,494
Other reserves	16	(539,409,005)	(32,978,438)
Profit and loss account	17	40,201,601,175	38,929,347,049
Total shareholders' equity		42,829,968,167	42,032,116,105
Total liabilities and shareholders' equity		356,478,122,211	328,881,391,605
OFF BALANCE SHEET ITEMS			
Contingent liabilities			
Acceptances and endorsements		33,715,554,489	23,167,354,853
Letters of guarantee		87,772,846,201	74,797,769,279
Irrevocable letters of credit		86,781,076,601	74,744,921,979
Foreign exchange contracts - Spot and Forward		2,673,364,702	3,628,805,484
Total		210,942,841,993	176,338,851,595
Other commitments			
Documentary credits and short term trade-related transactions		-	-
Forward assets purchased and forward deposits placed		-	-
Un-drawn note issuance and revolving undertaking facilities		-	-
Un-drawn formal standby facilities, credit lines and other commitments		-	-
Total		-	-
Total off balance sheet items		210,942,841,993	176,338,851,595

The annexed notes 1 to 33 form an integral part of these financial statements.

As per our report of same date

A. Qasem & Co.
Chartered Accountants
Registration No: 2-PC7202

Gorachad Kundu, FCA
Partner
Enrolment No: 1468
DVC No: 2202241468AS244600

Place of Issue: Dhaka
Dated: 24 February 2022

Md Mahbub ur Rahman
Chief Executive Officer, Bangladesh

Moinuddin Akhand
Acting Chief Financial Officer, Bangladesh



FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

Bangladesh Branches

Profit and Loss Account for the year ended 31 December 2021

	Notes	2021 BDT	2020 BDT
Interest income	19	9,844,218,517	13,126,661,195
Interest paid on deposits and borrowings	20	(2,174,816,896)	(4,767,928,176)
Net interest income		7,669,401,631	8,358,733,019
Income from investments	21	2,000,908,677	2,047,047,345
Commission, exchange and brokerage	22	4,618,827,786	4,106,362,177
Other operating income	23	3,037,782	7,674,520
Total operating income		14,292,175,876	14,519,817,061
Salaries and allowances	24	2,966,093,910	2,740,442,820
Rent, taxes, insurance, electricity etc.		295,443,311	366,938,141
Legal and professional expenses	25	40,301,927	21,769,085
Postage, stamp, telecommunication etc.		74,607,159	83,170,536
Auditors' fee		1,150,000	1,150,000
Stationery, printings and advertisements etc.		136,286,383	83,530,593
Chief Executive Officer's salary and allowances		43,333,037	56,440,549
Depreciation, impairment and repair of Bank's assets	26	705,117,678	724,999,908
Other operating expenses	27	1,200,796,872	1,362,856,577
Total operating expenses		5,463,130,277	5,441,298,209
Profit before provision		8,829,045,599	9,078,518,852
Specific provision for classified loans and advances	14.2	2,132,156,550	(172,355,301)
General provision for unclassified loans and advances			
and off balance sheet exposures	14.2	364,751,087	160,416,658
Other provision		-	-
Total provision		2,496,907,637	(11,938,643)
Profit before tax		6,332,137,962	9,090,457,495
Tax			
Current year	14.4	3,513,209,574	3,707,367,225
Prior year		(123,999,049)	82,470,337
Deferred tax	11.4	(840,751,862)	(104,723,554)
		2,548,458,663	3,685,114,008
Profit after tax for the year	17	3,783,679,299	5,405,343,487

The annexed notes 1 to 33 form an integral part of these financial statements.

As per our report of same date.

A. Qasem & Co.
Chartered Accountants
Registration No: 2-PC7202

Md Mahub ur Rahman
Chief Executive Officer, Bangladesh

Gorachad Kundu, FCA
Partner
Enrolment No: 1468
DVC No: 2202241468AS244600

Place of Issue: Dhaka
Dated: 24 February 2022

Moinuddin Akhand
Acting Chief Financial Officer, Bangladesh

Cash Flow Statement for the year ended 31 December 2021

	Notes	2021 BDT	2020 BDT
A Cash flow from operating activities			
Interest received		9,642,011,215	13,144,007,216
Interest paid		(2,285,258,789)	(5,816,113,217)
Dividends receipts		7,500,000	4,500,000
Commission, exchange and brokerage received		4,726,474,526	4,131,639,143
Other income		8,779,248	7,164,168
Cash paid to employees		(3,164,026,210)	(2,760,024,306)
Cash paid to suppliers		(658,198,296)	(688,592,965)
Cash paid for other operating expenses		(1,199,047,552)	(1,361,962,711)
Operating profit before changes in operating assets and liabilities		7,078,234,142	6,660,617,328
Increase/decrease of operating assets:			
Loans and advances to customers		(2,701,882,234)	(4,244,650,947)
Other assets		(654,004,214)	755,149,174
Increase/(decrease) of operating liabilities:			
Customers deposits		7,110,539,530	20,647,203,884
Borrowing from other banks and financial institutions		17,223,384,925	(5,171,352,889)
Other liabilities		460,762,628	204,901,609
		21,438,800,635	12,191,250,831
Cash receipt from operating activities		28,517,034,777	18,851,868,159
Advance income tax paid	14.4	(3,572,126,460)	(4,369,661,283)
Net cash receipt from operating activities		24,944,908,317	14,482,206,876
B Cash flow from investing activities			
Income from investments		1,564,470,426	2,010,661,647
Investments made during the year		(53,907,196,653)	(41,687,446,818)
Proceeds from sale of investments		42,011,041,919	26,355,574,138
Purchase of property, plant and equipment	10	(553,871,389)	(148,342,011)
Proceeds from sale of property, plant and equipment		6,866,193	1,312,907
Net cash used in investing activities		(10,878,689,504)	(13,468,240,137)
C Cash flow from financing activities			
Cash remitted to head office	17	(2,398,115,033)	(1,442,750,552)
Net cash used in financing activities		(2,398,115,033)	(1,442,750,552)
D Net increase in cash and cash equivalents (A+B+C)		11,668,103,780	(428,783,813)
E Gain/(Loss) on revaluation of foreign currency deposited with Bangladesh Bank as capital and cash and cash equivalents	15	32,028,503	-
F Net increase in cash and cash equivalents (D+E)		11,700,132,283	(428,783,813)
G Opening cash and cash equivalents		46,126,408,134	46,555,191,947
H Closing cash and cash equivalents (F+G)	29	57,826,540,417	46,126,408,134

As per our report of same date.

A. Qasem & Co.
Chartered Accountants
Registration No: 2-PC7202

Md Mahub ur Rahman
Chief Executive Officer, Bangladesh

Gorachad Kundu, FCA
Partner
Enrolment No: 1468
DVC No: 2202241468AS244600

Place of Issue: Dhaka
Dated: 24 February 2022

Moinuddin Akhand
Acting Chief Financial Officer, Bangladesh

Statement of Changes in Equity for the year ended 31 December 2021

Particulars	Fund deposited with Bangladesh Bank (Note 15)	Other reserve (Note 16)	Profit and loss account (Note 17)	Total
	BDT	BDT	BDT	BDT
Balance at 01 January 2020	3,135,747,494	184,917,261	34,950,894,242	38,271,558,997
Revaluation of Foreign Currency	-	(9,515,923)	15,859,872	6,343,949
Net profit for the year	-	-	5,405,343,487	5,405,343,487
Unrealised interest on amortisation of HTM Securities (net of deferred tax assets/liabilities)	-	215,784,478	-	215,784,478
Unrealised interest on revaluation of HFT Securities (net of deferred tax assets/liabilities)	-	1,936,001	-	1,936,001
Actuarial gain/(loss) (net of deferred tax assets/liabilities)	-	(426,100,255)	-	(426,100,255)
Profit remitted to head office	-	-	(1,442,750,552)	(1,442,750,552)
Balance at 31 December 2020	3,135,747,494	(32,978,438)	38,929,347,049	42,032,116,105
Revaluation of Foreign Currency	32,028,503	57,493,393	(21,419,912)	68,101,984
Net profit for the year	-	-	5,405,343,487	5,405,343,487
Unrealised interest on amortisation of HTM Securities (net of deferred tax assets/liabilities)	-	(464,803,270)	-	(464,803,270)
Unrealised interest on revaluation of HFT Securities (net of deferred tax assets/liabilities)	-	(1,936,001)	-	(1,936,001)
Actuarial gain/(loss) (net of deferred tax assets/liabilities)	-	(97,184,689)	-	(97,184,689)
Provision for Start-up Fund 2021	-	-	(37,836,793)	(37,836,793)
Provision for Start-up Fund 2020	-	-	(54,053,435)	(54,053,435)
Profit remitted to head office	-	-	(2,398,115,033)	(2,398,115,033)
Balance at 31 December 2021	3,167,775,997	(539,409,005)	40,201,601,175	42,829,968,167

As per our report of same date.

A. Qasem & Co.
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Place of Issue: Dhaka
Dated: 24 February 2022

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Chief Executive Officer, Bangladesh

Moinuddin Akhand
Acting Chief Financial Officer, Bangladesh

Notes to the Financial Statements as at and for the year ended 31 December 2021

1 Background

The Hongkong and Shanghai Banking Corporation Limited ("HSBC"), Bangladesh Branches ("the Bank") commenced its banking operations in Bangladesh on 3 December 1996 after obtaining its banking license from Bangladesh Bank on 17 April 1996. HSBC is incorporated in Hong Kong and its ultimate holding company HSBC Holdings plc ("the Group") is incorporated in England.

HSBC also operates an Offshore Banking Unit (OBU) after obtaining its license from Bangladesh Bank on 18 March 1998.

2 Principal activities

HSBC offers a comprehensive range of financial services in Bangladesh including commercial and institutional banking, retail banking, global markets, global trade and receivable finance, global liquidity and cash management and custody and clearing.

2.1 Wholesale banking (WSB): Wholesale Banking provides a wide range of financial services and products having international connectivity to meet the need of both corporate and commercial customers. Services provided include working capital, term loans, payment services and international trade facilitation, among other services, as well as expertise in mergers and acquisitions, and access to financial markets. This allows the Bank to provide continuous support to companies as they grow both domestically and internationally and ensures a clear focus on internationally aspirant customers. The Bank has an OBU license and therefore also provides foreign currency financing to qualifying customers.

Financial Institutions Group (FIG): Financial Institutions Group is the client sector within Wholesale banking responsible for all aspects of the Group's relationships with financial institutions. Financial Institution Group manages banks and non-bank financial institutions.

2.2 Wealth & Personal Banking (WPB): HSBC offers a wide range of personal banking and other related financial services focusing primarily on high-net-worth customers under the 'Select' proposition and payroll banking solutions for salaried customers under the 'CEPS' (Corporate Employee Privilege Scheme) proposition. HSBC Retail Banking operates seven branches and twenty two ATM booths across Dhaka, Chattogram and Export Processing Zones (EPZ). Wealth & Personal Banking has been awarded the "2021 Asian Banking & Finance Award for International Retail Bank of the Year in Bangladesh."

Banking and financial services offered to retail customers include current and savings accounts, term deposits, personal secured and unsecured loans, local and international debit card, secured personal internet banking, remittance and student file facilities as well as international student account opening with HSBC abroad.

2.3 Global Markets: (GM) Global Markets provides financial solutions mainly in foreign exchange and money market products to international and local corporations, institutional customers including other banks, the Central Bank as well as other market participants. Global Markets operates a long-term relationship approach to provide solutions relating to the clients foreign exchange and short-term funding needs.

2.4 Global Trade and Receivables Finance: HSBC is the largest international trade bank with more than 150 years of experience. Global Trade and Receivables Finance (GTRF) has an unrivalled global presence and access to over 90 percent of the world's global capital flows. GTRF provides trade finance and risk mitigation solutions to customers all over the world. In addition to traditional trade, HSBC has the expertise to structure complex trade transactions across commodities, Supply Chain Finance (SCF) and working capital optimisation. HSBC facilitates both sides of 80 percent of Letters of Credit transactions, resulting in competitive pricing, standardised processing and simplified counterparty risk for clients.

HSBC has embarked on a journey to Transform Trade, to strengthen its ability to respond on evolving client needs and lead digitisation across the industry. It is doing this through the introduction of new technologies, the redesign of its client journeys and its core platforms and partnering with third parties. HSBC's ambition is to make trade safer, faster and easier.

HSBC Bangladesh operates in both the major commercial hubs (i.e. Dhaka and Chattogram) and has presence in all eight Export Processing Zones (EPZs) of the country through Business Development Offices (in Dhaka, Chattogram, Cumilla, Mongla, Adamjee, Karnaphuli, Ishwardi and Nilphamari).

2.5 Global Liquidity and Cash Management: Global Liquidity and Cash Management (GLCM) helps clients to optimize their control over cash flows with HSBC's world-class global payables, receivables and liquidity management solutions through its online banking platform/ online connectivity. Strategic cash management and enhanced visibility are vital to the success and growth of clients' business. GLCM solutions help clients to achieve these goals by enabling them to make faster, smarter business decisions.

GLCM is a part of HSBC's Global Banking and Markets division and it supports relationship managers/ sales managers in deepening client's cash wallet share for the bank by providing liquidity and cash management solutions along with necessary expertise which our clients need. GLCM is uniquely positioned to help clients make payments within and across borders and currencies in conformity with local regulations, quickly and cost effectively with dedicated in-country and regional support.

2.6 Markets & Securities Services (MSS): Markets & Securities Services enables corporate and institutional clients to access financial markets and liquidity, unlock investment opportunities, manage risk and transact seamlessly. Our global network is

combined with emerging markets leadership and specialist expertise, giving clients the confidence to go where the growth is and capture new opportunities. HSBC delivers a comprehensive range of custody and clearing services to institutional clients, underpinned by best practices, state-of-the-art technology, operational efficiency and world-class services. The network uses an advanced securities platform, which was developed in-house and provides round-the-clock online real-time access to clients' securities portfolios.

3 Basis of preparation

3.1 Statement of compliance

The Financial Reporting Act 2015 (FRA) was enacted in 2015. Under the FRA, the Financial Reporting Council (FRC) is formed and has from time to time issued guidance to follow related accounting standards in preparing financial statements. However, the financial statements of the Bank continue to be prepared in accordance with International Accounting Standards (IAS), International Financial Reporting Standards (IFRS), the requirements of the Bank Company Act 1991, the rules and regulations issued by Bangladesh Bank (BB), and the Companies Act 1994.

In case any requirement of the Bank Company Act 1991, and provisions and circulars issued by Bangladesh Bank differ with those of IFRS, the requirements of the Bank Company Act 1991, and provisions and circulars issued by Bangladesh Bank shall prevail.

According to BRPD circular no. 2 dated 25 February 2019, the financial statements of the Banks are prepared on a solo basis where OBU information is included in equivalent BDT denomination. However, key financial information of OBU is provided as an annexure to the solo financial statements of the Bank. Material deviations from the requirements of IFRS in preparing the financial statements of HSBC are as follows:

i) Investment in shares and securities

IFRS: As per requirements of IFRS 9, classification and measurement of investment in shares and securities will depend on how these are managed (the entity's business model) and their contractual cash flow characteristics. Based on these factors it would generally fall either under "at fair value through profit or loss account" or under "at fair value through other comprehensive income" where any change in the fair value (as measured in accordance with IFRS 13) at the year-end is taken to profit and loss account or other comprehensive income respectively.

Bangladesh Bank: As per Banking Regulation and Policy Department (BRPD) circular no. 14 dated 25 June 2003 investments in quoted shares and unquoted shares are revalued at the year end at market price and as per book value of last audited balance sheet respectively. Provision should be made for any loss arising from diminution in value of investment; otherwise investments are recognised at cost.

ii) Revaluation gains/losses on Government securities

IFRS: As per requirement of IFRS 9 where securities will fall under the category of fair value through profit or loss account, any change in the fair value of assets is recognised through the profit and loss account. Securities designated as amortised cost are measured at effective interest rate method and interest income is recognised through the profit and loss account.

Bangladesh Bank: Held for trading (HFT) securities are revalued on the basis of mark to market and at year end any gains on revaluation of securities which have not matured as at the balance sheet date are recognised in other reserves as a part of equity. Any losses on revaluation of securities which have not matured as at the balance sheet date are charged in the profit and loss account. Interest on HFT securities including amortisation of discount are recognised in the profit and loss account. Held to maturity (HTM) securities which have not matured as at the balance sheet date are amortised at year end and gains or losses on amortisation are recognised in other reserve as part of equity.

iii) Repo and reverse repo transactions

IFRS: As per IFRS 9 when an entity sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date (repo), the arrangement is treated as a loan and the underlying asset continues to be recognised at amortised cost in the entity's financial statements. The difference between selling price and repurchase price will be treated as interest expense. The same rule applies to the opposite side of the transaction (reverse repo).

Bangladesh Bank: As per Department of Off-Site Supervision (DOS) Circular letter no. 06 dated 15 July 2010 and subsequent clarification in DOS circular no. 02 dated 23 January 2013, when a bank sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date (repo or stock lending), the arrangement is accounted for as a normal sales transaction and the financial asset is derecognised in the seller's book and recognised in the buyer's book.

iv) Provision on loans and advances/investments

IFRS: As per IFRS 9 an entity shall recognise an impairment allowance on loans and advances based on expected credit losses. At each reporting date, an entity shall measure the impairment allowance for loans and advances at an amount equal to the lifetime expected credit losses if the credit risk on these loans and advances has increased significantly since initial recognition whether assessed on an individual or collective basis considering all reasonable information, including that which is forward-looking. For those loans and advances for which the credit risk has not increased significantly since initial recognition, at each reporting date, an entity shall measure the impairment allowance at an amount equal to 12 month expected credit losses that may result from default events on such loans and advances that are possible within 12 months after reporting date.

Bangladesh Bank: As per BRPD Circular Letter No.03 dated 31 January 2021, BRPD Circular Letter No.05 dated 24 March 2021, BRPD Circular Letter No.13 dated 26 June 2021, BRPD Circular Letter No.19 dated 26 August 2021, BRPD Circular Letter No.45 dated 04 October 2021, BRPD Circular Letter No.50 dated 14 December 2021, BRPD Circular Letter No. 52 dated 29 December 2021, BRPD (P-1)/661/13/2021-12262 dated 29 December 2021, BRPD Circular Letter No. 53 dated 30 December 2021, BRPD circular No. 56 (10 December 2020), BRPD circular No. 52 (20 October 2020), BRPD circular No. 17 (28 September 2020), BRPD Circular No. 16 (21 July 2020), BRPD circular No. 13 (15 June 2020), BRPD circular No. 04 (19 March 2020), BRPD circular No. 07 (19 March 2020), BRPD circular No. 24 (17 November 2019), BRPD circular No. 06 (19 May 2019), BRPD circular No. 04 (16 May 2019), BRPD circular No. 03 (21 April 2019), BRPD circular No. 01 (20 February 2019), BRPD circular No.15 (27 September 2017), BRPD circular No.16 (18 November 2014), BRPD circular No.14 (23 September 2012), BRPD circular No. 19 (27 December 2012) and BRPD circular No. 05 (29 May 2013) a general provision at 0.25% to 2% under different categories of unclassified loans (good/standard loans) as well as a special general provision for COVID-19 has to be maintained regardless of objective evidence of impairment. Also specific provision for sub-standard loans, doubtful loans and bad losses has to be provided at 5%, 20%, 50% and 100% respectively for loans and advances depending on time past due. Again as per BRPD circular no. 10 dated 18 September 2007 and BRPD circular no. 14 dated 23 September 2012, a general provision at 1% is required to be provided for all off-balance sheet exposures. Such provision policies are not specifically in line with those prescribed by IFRS 9.

v) Recognition of interest in suspense

IFRS: Loans and advances to customers are generally classified at amortised cost as per IFRS 9 and interest income is recognised by using the effective interest rate method to the gross carrying amount over the term of the loan. Once a loan subsequently become credit-impaired, the entity shall apply the effective interest rate to the amortised cost of these loans and advances.

Bangladesh Bank: As per BRPD circular no. 14 dated 23 September 2012, once a loan is classified as impaired, interest on such loans are not allowed to be recognised as income, rather the corresponding amount needs to be credited to an interest in suspense account, which is presented as a liability in the balance sheet.

vi) Other comprehensive income

IFRS: As per IAS 1 Other Comprehensive Income (OCI) is a component of financial statements or the elements of OCI are to be included in a single other comprehensive income statement.

Bangladesh Bank: Bangladesh Bank has issued templates for financial statements which will strictly be followed by all banks. The templates of financial statements issued by Bangladesh Bank neither include Other Comprehensive Income nor are the elements of Other Comprehensive Income allowed to be included in a single other Comprehensive Income (OCI) Statement. As such the Bank does not prepare the other comprehensive income statement. However, elements of OCI, if any, are shown in the statement of changes in equity.

vii) Financial instruments – presentation and disclosure

In several cases Bangladesh Bank guidelines categorise, recognise, measure and present financial instruments differently from those prescribed in IFRS 9. As such full disclosure and presentation requirements of IFRS 7 and IAS 32 cannot be made in the financial statements.



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Bangladesh Branches

viii) Financial guarantees

IFRS: As per IFRS 9, financial guarantees are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtors fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantee liabilities are recognised initially at their fair value plus transaction costs that are directly attributable to the issue of the financial liabilities. The financial guarantee liability is subsequently measured at the higher of the amount of loss allowance for expected credit losses as per impairment requirement and the amount initially recognised less, income recognised in accordance with the principles of IFRS 15. Financial guarantees are included within other liabilities.

Bangladesh Bank: As per BRPD circular no 14, financial guarantees such as letter of credit and letter of guarantee will be treated as off-balance sheet items. No liability is recognised for the guarantee except the cash margin. As per BRPD Circular No.01 dated 03 January 2018 and BRPD Circular No.14 dated 23 September 2012, the Bank is required to maintain provision at 1% against gross off-balance sheet exposures (which includes undrawn loan commitments).

ix) Cash and cash equivalents

IFRS: Cash and cash equivalent items should be reported as cash item as per IAS 7.

Bangladesh Bank: Some cash and cash equivalent items such as money at call on short notice, treasury bills with maturity of more than three months and prize bond are not shown as cash and cash equivalents. Money at call on short notice is shown separately in the balance sheet. Treasury bills with maturity of more than three months and prize bond are shown under investment in the balance sheet.

x) Non-banking assets

IFRS: No indication of Non-banking assets is found in any IFRS.

Bangladesh Bank: As per BRPD circular no 14, there is a separate balance sheet item named Non-banking assets existing in the standard format.

xi) Cash flow statement

IFRS: The cash flow statement can be prepared using either the direct method or the indirect method. The presentation is selected to present these cash flows in a manner that is most appropriate for the business or industry. The method selected is applied consistently.

Bangladesh Bank: As per BRPD circular no 14, the cash flow statement is a mixture of both the direct and the indirect methods.

xii) Balance with Bangladesh Bank: (Cash Reserve Ratio - CRR)

IFRS: CRR maintained with Bangladesh Bank should be treated as other asset as it is not available for use in day to day operations as per IAS 7.

Bangladesh Bank: Balance with Bangladesh Bank including CRR is treated as cash and cash equivalents.

xiii) Presentation of intangible assets

IFRS: Intangible assets must be identified and recognised, and the disclosure must be given as per IAS 38.

Bangladesh Bank: There is no regulation for intangible assets in BRPD circular no. 14 dated 25 June 2003.

xiv) Off-balance sheet items

IFRS: As per IFRS, there is no requirement for disclosure of off-balance sheet items on the face of the balance sheet.

Bangladesh Bank: As per BRPD circular no.14 dated 25 June 2003, off balance sheet items (e.g. Letter of credit, Letter of guarantee etc.) must be disclosed separately on the face of the balance sheet.

xv) Loans and advances/investments net of provision

IFRS: Loans and advances/Investments should be presented net of provision.

Bangladesh Bank: As per BRPD circular no.14, provision on loans and advances/investments are presented separately as a liability and cannot be netted off against loans and advances.

xvi) Name of Financial Statements

IFRS: As per IAS 1: *Presentation of Financial Statement*, components of financial statements are defined as statement of financial position and statement of profit or loss and other comprehensive income.

Bangladesh Bank: As per BRPD circular no 14, statement of financial position is defined as 'Balance Sheet' whilst statement of profit or loss and other comprehensive income is defined as 'Profit & Loss Account'.

3.2 Basis of measurement

The financial statements of the Bank are prepared on the basis of historical cost except for investment in treasury bills and treasury bonds which have been "mark to market" in accordance with the Department of Off-Site Supervision (DOS) circular 05 (28 January 2009) and the liability of defined benefit obligations which is recognised as the present value of the defined benefit obligations less the net total of the plan assets and other related items as required by IAS 19 and represents the financial performance and financial position of the branches in operation within Bangladesh.

All balances of all branches including Offshore Banking Unit (OBU) are encompassed in these financial statements.

3.3 Functional and presentation currency

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements of the Bank are presented in Bangladeshi Taka (BDT) which is the Bank's both functional and presentation currency.

3.4 Use of estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the periods in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described below:

- Provisions on loans and advances - as explained in note 4.2
- Income tax - as explained in note 4.20
- Post-employment benefits - defined benefit plan - as explained in note 4.18
- Allocation of head office expenses to the Bank
- Allocation of operating expenses to OBU

3.5 Reporting period

These financial statements cover one calendar year from 01 January 2021 to 31 December 2021. These financial statements are authorised for issue by management of the Bank on 24 February 2022.

3.6 Cash flow statement

The cash flow statement has been prepared in accordance with IAS 7, Cash Flow Statements considering the requirements specified in BRPD circular No. 14 dated 25 June 2003 issued by the Banking Regulation and Policy Department of Bangladesh Bank.

3.7 Statement of changes in equity

The statement of changes in equity reflects information about the increase or decrease in net assets or wealth during the year.

3.8 Liquidity statements

The liquidity statement of assets and liabilities as on the reporting date has been prepared on residual maturity term as provided in the statement.

4 Significant accounting policies

4.1 Foreign currencies

According to IAS 21 "The Effects of Changes in Foreign Exchange Rates" transactions in foreign currencies are recorded in the functional currency at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange prevailing at the balance sheet date. Any resulting exchange differences are included in the profit and loss account except for exchange differences on "Funds deposited with Bangladesh Bank", which is recognised directly in equity.

4.2 Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not sell in the normal course of business.

Loans and advances are measured at amortised cost. These are stated gross, with accumulated specific and general provisions for loans and advances being shown under other liabilities.

4.3 Provisions on loans and advances

At each balance sheet date and periodically throughout the year, the Bank reviews loans and advances to assess whether objective evidence that impairment of a loan or portfolio of loans has arisen supporting a change in the classification of loans and advances, which may result in a change in the provision required in accordance with BRPD Circular Letter No.03 dated 31 January 2021, BRPD Circular Letter No.05 dated 24 March 2021, BRPD Circular Letter No.13 dated 26 June 2021, BRPD Circular Letter No.19 dated 26 August 2021, BRPD Circular Letter No.45 dated 04 October 2021, BRPD Circular Letter No.50 dated 14 December 2021, BRPD Circular Letter No. 52 dated 29 December 2021, BRPD (P-1)/661/13/2021-12262 dated 29 December 2021, BRPD Circular Letter No. 53 dated 30 December 2021, BRPD circular No. 56 (10 December 2020), BRPD circular No. 52 (20 October 2020), BRPD circular No. 17 (28 September 2020), BRPD Circular No. 16 (21 July 2020), BRPD circular No. 13 (15 June 2020), BRPD circular No. 04 (19 March 2020), BRPD circular No. 07 (19 March 2020), BRPD circular No. 24 (17 November 2019), BRPD circular No. 06 (19 May 2019), BRPD circular No. 04 (16 May 2019), BRPD circular No. 03 (21 April 2019), BRPD circular No. 01 (20 February 2018), BRPD circular No.15 (27 September 2017), BRPD circular No.16 (18 November 2014), BRPD circular No.14 (23 September 2012), BRPD circular No. 19 (27 December 2012) and BRPD circular No. 05 (29 May 2013). The guidance in the circular follows a formulaic approach whereby specified rates are applied to the various categories of loans as defined in the circular. The provisioning rates are as follows:

General provision on:	2021	2020
Unclassified general loans and advances/investments	1.00%	1.00%
Unclassified small and medium enterprise financing	0.25%	0.25%
Unclassified loans/investment for housing finance and on loans for professionals	1.00%	1.00%
Unclassified consumer financing other than housing finance and loans for professionals	2.00%	2.00%
Unclassified agricultural loans	1.00%	1.00%
Special general provision- COVID-19:		
Unclassified CMSME loans & Advances/investment	1.50%	-
Unclassified general loans and advances/investment	2.00%	1.00%
Special Mention Account (SMA) loans and advances/investment	2.00%	-

Specific provision on:

Substandard loans and advances/investments other than agricultural loans	20%	20%
Doubtful loans and advances/investment other than agricultural loans	50%	50%
Substandard and doubtful agricultural loans	5%	5%
Bad/loss loans and advances/investments	100%	100%

BRPD circular No.14 (23 September 2012) as amended by BRPD circular No. 19 (27 December 2012) also provides scope for further provisioning based on qualitative judgments. In these circumstances impairment losses are calculated on individual loans considered individually significant based on which specific provisions are raised. If the specific provisions assessed under the qualitative methodology are higher than the specific provisions assessed under the formulaic approach, the higher of the two is recognised in liabilities under "Provision for loans and advances" with any movement in the provision charged/released in the profit and loss account. Classified loans are categorised into sub-standard, doubtful and bad/loss based on the criteria stipulated by Bangladesh Bank guideline.

4.4 Loan write-off

Loans are normally written off, when there is no realistic prospect of recovery of these amounts and in accordance with BRPD circular No.01 (06 February 2019), BRPD circular No.13 (07 November 2013) and BRPD circular No.02 (13 January 2003). A separate Debt Collection Unit (DCU) has been set up which monitors loans written off and legal action taken through the money loan court. These write-offs do not undermine or affect the amount claimed against the borrower by the Bank.

The DCU maintains a separate record for all individual cases written off by each branch. The DCU follow-up on the recovery efforts of these written off loans and reports to management on a periodic basis. Written off loans and advances are reported to the Credit Information Bureau (CIB) of Bangladesh Bank. As per BRPD circular No.17 (28 September 2020).

4.5 Provisions on balances with other banks and financial institutions (Nostro accounts)

Provisions for unsettled transactions on nostro accounts made are reviewed on a monthly basis by management in Risk management meeting (RMM) and certified by the Bank's external auditors on a semi-annual basis in accordance with Bangladesh Bank Foreign Exchange Policy Department (FEPD) circular No. 677 (13 September 2005).

4.6 Provisions for off balance sheet exposures

As per BRPD circular No.14 (23 September 2012) the Bank has recognised 1% General Provision on the following off balance sheet exposures as defined in BRPD circular No.10 (24 November 2002) considering the exemption as provided through BRPD circular No.01 (03 January 2018), BRPD circular No.07 (21 June 2018) and BRPD circular No.13 (18 October 2018):

- Acceptances and endorsements
- Letters of guarantee
- Irrevocable letters of credit
- Foreign exchange contracts

4.7 Investments

In accordance with Bangladesh Bank guideline the Bank has classified investment into the following categories:

- Held to Maturity (HTM)
- Held for Trading (HFT)

In accordance with DOS circular no.05 (26 May 2008) and DOS circular no.05 (28 January 2009) treasury securities held for Statutory Liquidity Ratio (SLR) compliance could be classified as either HTM or HFT. HTM securities which have not matured as at the balance sheet date are amortised at the year end and gains or losses on amortisation are recognised in other reserve as a part of equity. Coupon interest on HTM securities is recognised in profit and loss account. HFT securities are revalued on the basis of mark to market and at year end any gains on revaluation of securities which have not matured as at the balance sheet date are recognised in other reserves as a part of equity and any losses on revaluation of securities which have not matured as at the balance sheet date are charged in the profit and loss account. Interest on HFT securities including amortisation of discount are recognised in the profit and loss account.

The Bank's investments in shares (unquoted) are recorded at cost and income thereon is accounted for when the right to receive payment is established. Provisions are made for any loss arising from diminution in value of investments. Bonus share in their own self will have no value as the fair value of each shareholder's interest should be unaffected by the bonus issue, hence no accounting entries are passed in the book for bonus share received.

4.8 Provisions for other assets

BRPD circular No.14 (25 June 2001) requires a provision of 100% on relevant other assets which are outstanding for one year and above. The Bank maintains provision in line with this circular unless no provision is required based on objective assessment.

4.9 Fixed assets (Property, plant and equipment)

Fixed assets (including assets acquired under finance leases where the Bank is the lessee) are stated at cost less any impairment losses and depreciation calculated on a straight-line basis, from the month in which the asset is recognised to the month prior to the month in which the asset is disposed, so as to write off the assets over their useful lives, which are as follows:

- Furniture and fixtures	10 years	10% pa
- Equipment	5 to 7 years	14.28% to 20% pa
- Motor vehicles	5 years	20% pa
- Computers	4 years	25% pa

Fixed assets are subject to an impairment review if there are events or changes in circumstances which indicate that the carrying amount may be impaired. Repairs and maintenance are charged to the profit and loss account as incurred.

Depreciation is comprised of both from fixed assets and leased assets as per IFRS 16: Leases (note 4.11). As per the new standard, previously recognised rental expenses would be replaced with depreciation expenses.

4.10 Intangible assets

Intangible assets include purchased computer software which are stated at cost less

any impairment losses and amortisation calculated on a straight-line basis. In accordance with the provisions of IAS 38 the cost of purchased software which is not an integral part of the related hardware is booked under intangible assets. Intangible assets with finite useful life are amortised, generally on straight-line basis, over their useful lives as follows:

Purchased software	3 to 5 years	20% to 33.33% pa
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Intangible assets are subject to an impairment review if there are events or changes in circumstances which indicate that the carrying amount may be impaired. Modification, up-gradation and maintenance costs are charged to the profit and loss account as incurred.

4.11 Leases

IFRS 16: Leases, defines a lease as "A contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration". In order for such a contract to exist, the user of the asset needs to have the right to:

- Obtain substantially all of the economic benefits from the use of asset (Identifiable asset)
- The right to direct the use of asset

As per the new standard, from lessee's perspective, almost all leases being recognised on the balance sheet, the distinction between operating and finance leases is removed. Upon lease commencement a lessee recognises a right-of-use (ROU) asset and a lease liability. The ROU asset is initially measured at the amount of the lease liability plus any initial direct costs incurred by the lessee. Adjustments may also be required for lease incentives, payments at or prior to commencement and restoration obligations or similar.

The impact of the new standard on lessees' financial statements is:

- An increase in recognised assets and liabilities
- More lease expenses recognised in early periods of lease, and less in the later periods of a lease
- A shift in lease expense classification from rental expenses to interest expense and depreciation

International Accounting Standards Board (IASB) has adopted IFRS 16 (replacing IAS 17) globally effective from 01 January 2019 and HSBC Plc has adopted IFRS 16 from the same date proposed by IASB. In Bangladesh, Institute of Chartered Accountants of Bangladesh (ICAB) adopted IFRS 16 with same effective date. As Bangladesh Bank (BB) has no other alternative regulation or guidance regarding the same, HSBC Bangladesh has adopted IFRS 16 from the same date in preparing solo financial statements and duly notified BB during 2019.

As per IFRS 16: Leases, summary of lease related information is provided in the below table-

Year	Particulars	Opening Balance	Addition	De-recognition	Depreciation/ interest expenses during the year	Lease payment	Written down value/Closing balance
2021	ROU Assets	1,547,186,783	528,296,685	981,463,967	-	-	916,335,659
	Accumulated Depreciation	539,245,381	39,850,825	654,244,698	252,832,335	-	-
	Lease Liabilities	736,486,391	542,539,177	330,217,428	76,938,110	237,657,130	788,089,119
2020	ROU Assets	1,108,725,098	449,143,731	10,682,045	-	-	1,007,941,402
	Accumulated Depreciation	241,507,681	4,340,664	10,682,045	304,079,082	-	-
	Lease Liabilities	629,392,507	250,445,511	-	82,523,123	225,874,750	736,486,391

In addition to the above, short term lease expenses of BDT16,896,768 (BDT35,053,620 in 2020) is reported under Other operating expenses in profit and loss account.

4.12 Deposits by customers and banks

Deposits by customers and banks are recognised when the Bank enters into the contractual provisions of the arrangements with counterparties, which is generally on trade date, and initially measured at the consideration received.

4.13 Provisions for liabilities and charges

As per IAS 37, provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a current legal or constructive obligation as a result of past events, and a reliable estimate can be made of the amount of the obligation.

4.14 Capital adequacy

According to Sub-section 2 of Section 13 of the Bank Company Act 1991, as amended by BRPD circular No.11 (14 August 2008) and BRPD circular No. 18 (21 December 2014) all banks are required to maintain with Bangladesh Bank the higher of BDT 4 billion or the minimum capital requirement calculated as 10% of risk weighted assets (RWA). In addition to minimum capital requirement, Capital Conservation Buffer (CCB) at the rate of 2.50% of the total RWA is to be maintained in the form of Common Equity Tier-1 Capital (CET-1). The banks incorporated outside Bangladesh are required to deposit the required capital in the form of cash or in unencumbered approved securities. Note 29 demonstrates the Bank's compliance with the overall capital requirements as disclosed above. The risk based capital adequacy framework in line with Basel III has come into force from 01 January 2015 as per BRPD circular No. 18 (21 December 2014).

4.15 Off setting financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

4.16 Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents include highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value and normally those with less than three months maturity from the date of acquisition and include cash and balances at central banks, treasury bills and other eligible bills and balances with other banks and financial institutions.

4.17 Revenue recognition

Interest income and expense

Interest income and expenses are recognised in the profit and loss account on accrual basis. In case of Amanah, mark-up on investments is taken into the income account proportionately from profit receivable accounts. Overdue/late payment charge on investment is transferred to charity suspense account instead of income account.

In accordance with BRPD circular No. 14 (23 September 2012) as amended by BRPD circular No. 19 (27 December 2012) interest accrued on sub-standard loans and doubtful loans are credited to an "Interest Suspense Account" which is included within "Other liabilities". Interest from loans and advances ceases to be accrued when they are classified as bad/loss. It is then kept in interest suspense in a memorandum account. Interest received on sub-standard loans, doubtful loans and bad/loss loans are retained in the "Interest Suspense Account" until the loan is no longer considered to be impaired.

Interest income from investment

Interest income on investments in government and other securities and bonds is accounted for on an accrual basis and as per Bangladesh Bank guidelines.

Interest expense on deposits

Interest expenses for all deposits are recognised in the profit and loss account on an accrual basis.

Commission and fee income

The Bank earns commission and fee income from a diverse range of services provided to its customers. Commission and fee income is accounted for as follows:

- income earned on the execution of a significant act is recognised as revenue when the act is completed
- income earned from services provided is recognised as revenue

Exchange income

Exchange income includes all gains and losses from foreign currency transactions.

Dividend income

Dividend income is recognised when the right to receive payment is established.

4.18 Employee benefits

Short-term employee benefits

Short-term employee benefits are employee benefits which fall due wholly within twelve months after the end of the period in which the employees render the related service including salaries, bonuses and other allowances. Payments are charged as an expense in the profit and loss account as they fall due. Payments due are accrued as a liability in "Provisions for liabilities and charges" on an undiscounted basis.



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Long term employee benefits

Long-term employee benefits are employee benefits other than post-employment benefits, which do not fall due wholly within twelve months after the period in which the employees render the related service. The Bank operates bonus schemes where certain percentage of the bonus are vested on a yearly basis. The period between the award date and the payable date is the vesting period. Payments due are accrued as a liability in "Provisions for liabilities and charges" over the vesting period.

Post-employment benefits

Post-employment benefits are employee benefits, which are payable after the completion of employment. The Bank operates a defined contribution plan, The Hongkong and Shanghai Banking Corporation Limited Staff Provident Fund (PF) and a defined benefit plan, The Hongkong and Shanghai Banking Corporation Limited Employees Gratuity Fund (GF), both of which have been set up under an irrevocable trust deed and recognised by the Commissioner of Taxes and approved by the National Board of Revenue respectively.

Under the PF, the Bank's contribution amounts to 10% of basic salary per month (as defined in the scheme trust deed) for each eligible member. Payments to the PF are charged as an expense in the profit and loss account as they fall due.

Under the GF, the Bank's obligation to members of the scheme is to pay one month/ one and half month's last drawn basic salary based on length of service (as defined in the scheme trust deed) on the termination of employment.

The defined benefit plan costs and the present value of defined benefit obligations are calculated at the balance sheet date by the schemes actuaries using the Projected Unit Credit Method, this involves the use of estimates regarding demographic variables (such as employee turnover and mortality) and financial variables (such as future increases in salaries).

The net charge to the profit and loss account mainly comprises the current service cost, plus the unwinding of the discount rate on plan liabilities, less the expected return on plan assets, and is presented in operating expenses. Past service costs are charged immediately to the profit and loss account to the extent that the benefits have vested, and are otherwise recognised on a straight-line basis over the average period until the benefits vest. Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred), as well as the effects of changes in financial assumptions. Actuarial gains and losses are recognised in 'shareholders' equity' in the period in which they arise.

4.19 Operating expenses

- Depreciation is discussed in the accounting policies section on Fixed Assets (note 4.9).
- Amortisation of software is discussed in the accounting policies section on Intangible Assets (note 4.10).
- Salaries and allowances are discussed in the accounting policies section on Employee Benefits (note 4.18).
- Advertising costs are amortised over the period during which the benefit of the advertising accrues.
- All other expenses are accounted for on an accrual basis.

Operating expenses incurred centrally by the Bank are apportioned between the Bangladesh Branches and Offshore banking unit on the basis of total operating income. Group head office expenses (HoE) are recognised in OBU to the extent as allowed through FE circular No.15 (10 June 2018). As per the said circular, foreign banking companies operating in Bangladesh are allowed to remit head office expense up to 10% of the profit before tax in accordance with the Income Tax Ordinance (ITO) 1984.

4.20 Income tax

Income tax on the profit or loss for the year comprises current tax and deferred tax. Income tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in shareholders' equity, in which case it is recognised in shareholders' equity.

Current tax

Current tax is the tax expected to be payable on the taxable profit for the year, calculated using tax rates as prescribed in the Income Tax Ordinance (ITO) 1984 and relevant Statutory Regulatory Orders (SRO) and any adjustment to tax payable in respect of previous years. Currently the income tax rate applicable for banks is 40%.

The estimation of current tax provision involves making judgments regarding admissibility of certain expenses as well as estimating the amount of other expenses for tax purposes.

The Bank adopted IFRIC 23: Uncertainty over Income Tax Treatments, which became effective from 01 January 2019. As the Bank's existing accounting policies for uncertain income tax treatments is consistent with the requirements of IFRIC 23, no further disclosure is required.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the balance sheet and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is calculated using the tax rates as prescribed in the Income Tax Ordinance (ITO) 1984 and relevant Statutory Regulatory Orders (SRO) and BRPD circular No. 11 dated 12 December 2011 issued by the Banking Regulation and Policy Department of Bangladesh Bank.

4.21 Reconciliation of inter-bank/inter-branch accounts

Books of account with regard to inter-bank (in Bangladesh and outside Bangladesh) are reconciled and no material differences were found which may affect the financial statements significantly.

4.22 Contingent liabilities

As per IAS 37, contingent liability is:

A possible obligation that arises from past events and the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank; or

A present obligation that arises from past events but is not recognised because:

- it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
- the amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities are not recognised but disclosed in the financial statements unless the possibility of an outflow of resources embodying economic benefits is reliably estimated.

Contingent assets are not recognised in the financial statements as this may results in the recognition of income which may never be realised.

4.23 New accounting standards not yet adopted

The Bank has consistently applied the accounting policies as set out in Note 4 to all periods presented in these financial statements. The various amendments to standards, including any consequential amendments to other standards, with the date of initial application of 1 January 2021 have been considered. However, these amendments have no material impact on the financial statements of the Bank.

In December 2017, ICAB vide letter 1/1/ICAB-2017 decided to adopt IFRS replacing BFRS effective for annual periods beginning on or after 1 January 2018. However, since issued BFRS have been adopted from IFRS without any major modification, such changes would not have any material impact on these financial statements.

A number of standards and amendments to standards are effective for annual periods beginning on or after 1 January 2021 and earlier application is permitted. However, the Bank has not early applied the following new standard in preparing these financial statements.

(a) IFRS 17 Insurance contract

IFRS 17 was issued in May 2017 and applies to annual reporting periods beginning on or after 1 January 2021. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. The Bank has not yet assessed in potential impact of IFRS 17 on its financial statements.

5 (i) Cash in hand (including foreign currencies)

	2021 BDT	2020 BDT
Local currency	983,982,272	966,272,902
Foreign currencies	30,300,279	40,884,872
	1,014,282,551	1,007,157,774

(ii) Balance with Bangladesh Bank and its agent bank(s) (including foreign currencies)

Bangladesh Bank - Local currency	10,555,982,825	9,813,582,922
Bangladesh Bank Amanah - Local currency	2,500,000	2,500,000
Total - Local currency (Annexure - E)	10,558,482,825	9,816,082,922

Bangladesh Bank - Foreign currencies clearing and capital accounts (Annexure - E)

14,624,006,210	25,883,247,215
25,182,489,035	35,699,330,137
26,196,771,586	36,706,487,911

(iii) Cash Reserve Ratio and Statutory Liquidity Ratio

Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) have been calculated and maintained in accordance with the Section 33 of the Bank Company Act 1991 and the following BB circulars:

- BCD circular no.13 24 May 1992
- BRPD circular no.12 20 September 1999
- BRPD circular no.22 06 November 2003
- BRPD circular no.11 and 12 25 August 2005
- BRPD circular no.1 12 January 2009
- MPD circular no.1 04 May 2010
- MPD circular no. 4 and 5 01 December 2010
- DOS circular no.1 19 January 2014
- MPD circular no.1 23 June 2014
- MPD circular no.1 03 April 2018
- BRPD circular no.15 26 July 2018
- DOS circular no.23 07 October 2018
- MPD circular no.1 23 March 2020
- MPD circular no.3 09 April 2020
- BRPD circular no.31 18 June 2020
- DOS circular letter no.42 07 October 2021

According to Monetary Policy Department (MPD) circular no.3 (09 April 2020), minimum average 4.0% CRR requirement on a bi-weekly basis and no less than 3.5% of Average Total Demand and Time Liabilities (ATDTL) on any given day is to be complied. Based on ATDTL, SLR requirement is set at 13% for conventional and 5.5% for Islamic banking branch/windows respectively.

CRR and SLR requirements are calculated based on the ATDTL of two months prior to the reporting month (e.g. CRR and SLR requirements for the month of December 2021 has been calculated on the basis of ATDTL of the month of October 2021).

According to DOS Circular No 26 (19 August 2019) banks having OBU operations, are required to maintain CRR for both Onshore and Offshore operations. As per BRPD circular no. 31 (18 June 2020), for offshore banking operations (OBO), minimum average 2.0% CRR requirement on a bi-weekly basis and no less than 1.5% of ATDTL on any given day is to be complied.

Portrayed below in note 5 (iv) and (v), the bank's compliance with the CRR requirement on both onshore and offshore basis, based on the cash balances of period end and of the last two weeks of the financial year ended on 31 December 2021. In note 5 (vi), the Bank demonstrates compliance with the SLR requirement on both onshore and offshore basis, based on period end cash balances and holding of government securities on 31 December 2021.

(iv) Cash Reserve Ratio (CRR): Daily 3.50% and 1.50% of average total demand and time liabilities of onshore (including Amanah) and offshore respectively

	2021 BDT	2020 BDT
Required reserve		
- Onshore (including Amanah)	5,128,922,015	4,974,699,092
- Offshore	2,140,961,666	1,890,617,867
	7,269,883,681	6,865,316,959
Actual reserve held with Bangladesh Bank	10,560,701,100	7,871,221,076
Surplus	3,290,817,419	1,005,904,117

(v) Cash Reserve Ratio (CRR): Bi-weekly 4.0% and 2.0% of average total demand and time liabilities of onshore (including Amanah) and offshore respectively

	2021 BDT	2020 BDT
Required reserve		
- Onshore (including Amanah)	5,861,625,160	5,685,370,391
- Offshore	2,854,615,555	2,520,823,823
	8,716,240,715	8,206,194,214
Bi-weekly average reserve held with Bangladesh Bank (Annexure - D)	12,214,635,615	11,809,401,671
Surplus	3,498,394,900	3,603,207,457

(vi) Statutory Liquidity Ratio (SLR): 13.00% and 5.50% of average total demand and time liabilities of Conventional banking (onshore and offshore) and Amanah respectively

	2021 BDT	2020 BDT
Required reserve		
- Onshore (including Amanah)	19,049,802,568	18,476,976,622
- Offshore	18,555,001,106	16,385,354,850
	37,604,803,674	34,862,331,472
Actual reserve held with Bangladesh Bank	68,840,951,426	47,182,804,892
Surplus	31,236,147,752	12,320,473,420

6 Balance with other banks and financial institutions

In Bangladesh - current account

IFIC Bank Limited	300	300
Sonali Bank local office	12,386,556	51,460,680
United Commercial Bank	1,025,265	1,025,705
Standard Chartered Bank	28,830,516	19,407,415
Pubali Bank Limited	49,944,090	49,960,240
	92,186,727	121,854,340

Short term deposit

IFIC Bank Limited	13,474,873	13,151,327
Prime Bank Limited	7,500,325	7,500,020
Sonali Bank	29,951,962	29,105,113
United Commercial Bank	4,965,475	4,881,172
	55,892,635	54,637,632
	148,079,362	176,491,972

Outside Bangladesh - current account

HSBC Hong Kong - HKD	15,898,576	26,764,830
HSBC Hong Kong Global ATM settlement account	20,553,311	10,721,429
HSBC Hong Kong - CNY	10,900,792	36,125,519
HSBC Hong Kong-Settlement account	812,072,350	316,872,837
HSBC Japan	47,460,721	62,776,333
HSBC Singapore	1,186,484	1,882,035
HSBC India	324,771,391	1,401,478,355
Credit Suisse AG Switzerland	251,399,257	205,542,644
HSBC Bank PLC UK	196,510,627	186,177,889
HSBC Bank USA	1,779,407,361	2,429,541,611
SCB Pakistan	318,478,584	315,152,799
HSBC Sri Lanka	16,945,688	119,249,358
HSBC Bank Australia TT account	1,605,462	2,657,230
HSBC Bank Australia DD account	27,687	28,907
HSBC Bank Canada	3,331,379	1,210,982
HSBC France	1,395,786,667	257,304,708
Danske Bank Denmark	25,511	49,013
HSBC Bank India	66,985,265	71,878,873
HSBC Dubai	200,097	161,183
(For detail see Annexure - B)	5,263,547,210	5,445,576,535
	5,411,626,572	5,622,068,507

6.1 Segregation of balances with other banks and financial institutions based on types of account

	2021 BDT	2020 BDT
Current account (including foreign currency nostro)	5,355,733,937	5,567,430,875
Short term deposit account	55,892,635	54,637,632
	5,411,626,572	5,622,068,507

6.2 Maturity grouping of balance with other banks and financial institutions

Payable on demand	5,355,733,937	5,567,430,875
Payable within one month	55,892,635	54,637,632
More than one month but less than three months	-	-
More than three months but less than one year	-	-
More than one year but less than five years	-	-
More than five years	-	-
	5,411,626,572	5,622,068,507

7 Money at call on short notice

HSBC Hongkong	14,508,089,000	-
	14,508,089,000	-

8 Investments

Held to Maturity Securities (HTM)

91 day Treasury bills	599,892,765	-
182 day Treasury bills	3,046,842,862	16,982,770,492
364 day Treasury bills	19,277,580,935	19,832,871,049
2 year Government bonds	16,879,939,961	2,462,604,821
10 year Government bonds	554,930,532	-
	40,359,187,055	39,278,246,362

Held for Trading Securities (HFT)

91 day Treasury bills	11,109,571,994	3,796,812,616
182 day Treasury bills	5,190,184,480	1,999,310,826
364 day Treasury bills	4,495,804,371	1,099,031,796
2 year Government bonds	4,427,209,061	-
5 year Government bonds	400,251,516	-
	25,623,021,422	6,895,155,238
	588,500	1,039,100
	65,982,796,977	46,174,440,700

Prize bonds

Government securities (HTM, HFT, Prize bonds)

Other investment

Shares of Central Depository Bangladesh Limited

(3,000,000 unquoted ordinary shares including

2,400,000 bonus shares @ Tk 10 each). As per last audited financial statement of CDBL, book value per share is higher than the cost price of the investment.

6,000,000	6,000,000
6,000,000	6,000,000
65,988,796,977	46,180,440,700

8.1 Maturity grouping of investments

Payable on demand	588,500	1,039,100
Payable within one month	8,550,778,872	3,746,015,788
More than one month but less than three months	17,817,321,791	11,620,372,128
More than three month but less than one year	36,606,296,842	30,306,816,694
More than one year but less than five years	3,007,810,972	500,196,990
More than five years	6,000,000	6,000,000
	65,988,796,977	46,180,440,700

8.2 Outstanding repo as at 31 December

	2021 BDT	2020 BDT
Counterparty name	Agreement date	Reversal date
n/a	n/a	n/a
	Amount	Amount
	-	-

8.3 Outstanding reverse repo as at 31 December

Counterparty name	Agreement date	Reversal date	Amount	Amount
n/a	n/a	n/a	-	-

8.4 Overall transaction of repo and reverse repo

	Minimum Outstanding BDT	Maximum Outstanding BDT	Daily Average Outstanding BDT
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2021

Securities sold under repo:

i) with Bangladesh Bank	-	-	-
ii) with other banks and financial institutions	-	-	-

Securities purchased under reverse repo:

i) with Bangladesh Bank	-	-	-
ii) with other banks and financial institutions	-	-	-

2020

Securities sold under repo:

i) with Bangladesh Bank	1,477,716,000	1,977,118,000	9,465,299
ii) with other banks and financial institutions	-	-	-

Securities purchased under reverse repo:

i) with Bangladesh Bank	-	-	-
ii) with other banks and financial institutions	-	-	-

9 Loans and advances

	2021 BDT	2020 BDT
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Loans, cash credits, overdrafts:

In Bangladesh:

Staff loans	1,361,922,883	1,211,565,929
Home mortgage loans	950,422,258	1,245,292,210
Car loans	6,248,446	5,950,793
Personal loans	1,525,884,272	1,560,240,792
Overdraft for retail	253,830,379	354,952,631
Overdraft for corporate	4,790,254,837	4,453,549,114
Term loans	40,444,211,665	49,403,135,717
Import loans	39,039,940,239	41,588,626,698
Export Loans	5,074,566,971	2,338,728,298
Working capital	36,197,566,975	43,222,810,577
	129,644,848,925	145,384,852,759

Outside Bangladesh:

	129,644,848,925	145,384,852,759
Bills purchased and discounted (note 9.10)	110,232,797,623	91,790,911,555
	239,877,646,548	237,175,764,314

9.1 Maturity grouping of loans and advances including bills purchased and discounted

Payable on demand	6,702,958,833	6,714,470,832
Payable within one month	38,165,688,531	30,036,991,337
More than one month but less than three months	67,972,559,634	65,223,930,055
More than three months but less than one year	84,847,708,725	87,674,386,514
More than one year but less than five years	30,766,435,471	35,934,207,182
More than five years	11,422,295,354	11,591,778,394
	239,877,646,548	237,175,764,314

9.2 Analysis of significant concentration of loans and advances including bills purchased and discounted



FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

Bangladesh Branches

	2021 BDT	2020 BDT
Total Funded Outstanding	239,877,846,548	237,175,764,313
Total Non Funded Outstanding	208,269,477,289	172,710,046,112
50% of Total Non Funded Outstanding	104,134,738,645	86,355,023,056
Total Funded Outstanding & 50% of Total Non Funded Outstanding	344,012,385,193	323,530,787,369
Large Loan Ratio	41.16%	39.65%

9.4 Cash collateral against total outstanding loans and advances as at 31 December	1,693,287,282	1,424,305,948
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9.5 Loans and advances including bills purchased and discounted		
Loans	234,833,561,332	232,367,262,569
Overdrafts	5,044,085,216	4,808,501,745
	239,877,646,548	237,175,764,314

9.6 Particulars of loans and advances: industry-wise classification		
Readymade garments	51,598,272,612	41,019,804,235
Textile industries	33,800,260,449	35,892,706,758
Agriculture and agro processing	33,485,618,999	47,541,863,697
Steel and metal	10,536,484,692	11,353,076,155
Trade	867,055,849	904,040,715
Chemical and pharmaceuticals	12,441,366,578	13,347,820,458
Petroleum and coal products	-	2,126,490,150
Cement industries	10,149,420,430	10,785,553,750
Telecommunication	-	4,075,401,389
Non Government Organization (NGO)	6,731,477,164	8,014,905,466
Power and energy	12,530,227,723	10,923,230,988
Retail loans	2,736,385,355	3,166,436,426
Staff loans	1,361,922,883	1,211,556,929
Others	63,639,153,814	46,812,868,198
	239,877,646,548	237,175,764,314
9.7 Classification of loans and advances		
Unclassified:		
Standard	234,709,933,349	235,727,089,113
Special Mention Account	719,351,430	5,236,899
	235,429,284,779	235,732,326,012
Classified:		
Substandard	558,796,301	37,983,723
Doubtful	597,596,409	6,865,691
Bad/Loss	3,291,969,059	1,398,588,888
	4,448,361,769	1,443,438,302
	239,877,646,548	237,175,764,314

9.8 Particulars of loans and advances		
i) Loans considered good in respect of which the Bank is fully secured;	161,381,676,062	169,192,907,489
ii) Loans considered good against which the Bank holds no security other than the debtor's personal guarantee;	77,134,047,603	66,771,290,895
iii) Loans considered good secured by the personal undertakings of one or more parties in addition to the personal guarantee of the debtor;	-	-
iv) Loans adversely classified; provision not maintained there against;	-	-
v) Loans due by directors or officers of the banking company or any of these either separately or jointly with any other persons;	1,361,922,883	1,211,565,929
vi) Loans due from companies or firms in which the directors of the Bank have interests as directors, partners or managing agents or in case of private companies as members;	-	-
vii) Maximum total amount of advance including temporary advance made at any time during the year to directors or managers or officers of the Bank or any of them either separately or jointly with any other person;	1,371,572,274	1,238,776,618
viii) Maximum total amount of advances, including temporary advances granted during the year to the companies or firms in which the directors of the Bank have interest as directors, partners or managing agents or in case of private companies as members;	-	-
ix) Due from other banking companies;	-	-
x) Classified loans and advances:		
a) Classified loans and advances on which no interest is credited to income:		
Increase/(Decrease) of provision (specific)	2,112,918,279	(183,641,133)
Amount of loans written off	156,203,521	51,954,330
Amount realised against the loan previously written off	17,965,789	6,237,739
b) Provision on classified loans and advances (For movement see note 14.2)	2,693,566,266	580,647,987
c) Interest creditable to the interest suspense account (note 14.3)	689,327,579	459,619,834
xi) Cumulative amount of written off loans		
Opening balance	2,946,434,746	2,894,480,416
Amount written off during the year	156,203,521	51,954,330
	3,102,638,267	2,946,434,746
The amount of written off loan for which law suit has been filed	2,866,703,931	2,712,411,109

9.9 Geographical analysis of loans and advances		
Dhaka division	216,829,820,591	208,835,979,448
Chattogram division	23,047,825,957	28,339,784,865
	239,877,646,548	237,175,764,313

9.10 Bills purchased and discounted		
Inside Bangladesh	6,167,570	9,319,560
Outside Bangladesh	110,226,630,053	91,781,591,995
	110,232,797,623	91,790,911,555

9.11 Maturity analysis of bills purchased and discounted		
Payable on demand	869,288,190	856,917,156
Payable within one month	17,949,004,591	13,371,176,989
More than one month but less than three months	36,663,567,022	29,799,837,435
More than three months but less than six months	39,371,966,984	32,615,514,749
More than six months	15,378,970,836	15,147,465,226
	110,232,797,623	91,790,911,555

10 Fixed assets including premises, furniture and fixtures					
2021	Furniture and fixtures	Equipment	Motor vehicles	Computers	Total
Cost	BDT	BDT	BDT	BDT	BDT
Balance as at 1 January	221,907,847	671,166,372	29,615,614	440,371,955	1,363,061,788
Addition during the year	394,531,852	147,893,912	-	11,445,625	553,871,389
Disposals/adjustment	(97,289,540)	(193,018,806)	-	(134,620,721)	(424,929,067)
Balance as at 31 December	519,150,159	626,041,478	29,615,614	317,196,859	1,492,002,110
Accumulated Depreciation and impairment charges					
Balance as at 1 January	203,158,954	530,381,243	21,082,991	285,964,278	1,040,587,466
Depreciation charge					
for the year	79,211,326	58,527,406	3,199,734	30,573,618	171,512,086
Disposals/adjustments	(87,779,318)	(189,921,369)	-	(134,620,721)	(412,321,408)
Balance as at 31 December	194,590,962	398,987,280	24,282,725	181,917,175	799,778,144
Net book value as at 31 December 2021	324,559,197	227,054,198	5,332,889	135,279,684	692,225,966

2020	Furniture and fixtures	Equipment	Motor vehicles	Computers	Total
Cost	BDT	BDT	BDT	BDT	BDT
Balance as at 1 January	264,467,342	745,752,394	32,945,614	407,438,802	1,450,604,152
Addition during the year	35,152,908	62,910,909	-	50,278,194	148,342,011
Disposals/adjustment	(77,712,403)	(137,496,931)	(3,330,000)	(17,345,041)	(235,884,375)
Balance as at 31 December	221,907,847	671,166,372	29,615,614	440,371,955	1,363,061,788
Accumulated Depreciation and impairment charges					
Balance as at 1 January	249,777,311	631,613,054	21,213,257	281,100,618	1,183,704,240
Depreciation charge					
for the year	30,547,131	36,009,479	3,199,734	22,208,702	91,965,046
Disposals/adjustments	(77,165,488)	(137,241,290)	(3,330,000)	(17,345,042)	(235,081,820)
Balance as at 31 December	203,158,954	530,381,243	21,082,991	285,964,278	1,040,587,466
Net book value as at 31 December 2020	18,748,893	140,785,129	8,532,623	154,407,677	322,474,322

11 Other assets	2021 BDT	2020 BDT
Classification of other assets		
a) Income generating other assets	-	-
b) Non-income generating other assets		
Stamp in hand	865,141	2,267,673
Intangible assets (note 11.1)	6,929,229	10,706,795
Other debtors (note 11.2)	144,486,454	350,310,883
Deferred tax (note 11.3)	1,600,240,544	421,868,306
Rent paid in advance	5,139,172	40,088,182
Other prepayments	79,250,200	96,449,054
Refundable deposits	6,943,348	4,948,664
Accrued interest receivable from Bangladesh Bank	196,775,211	7,028,336
Accrued coupon interest on Bangladesh government treasury bond	477,605,730	48,667,479
Interest on balance with other banks and financial institutions	20,065,302	7,604,875
Commission receivable	87,813,828	133,505,369
Encashment of Bangladesh Sanchayapatra awaiting for reimbursement from Bangladesh Bank	249,484,262	737,321,424
Unrealised gain on foreign exchange contracts	11,031,481	5,447,409
Right of use assets as per IFRS 16	916,335,660	1,007,941,402
	3,802,965,562	2,874,155,851
	3,802,965,562	2,874,155,851

11.1 Intangible assets (Purchased software)		
Cost		
Balance as at 1 January	60,658,429	64,457,740
Acquisition during the year	1,890,750	8,506,500
Disposals/adjustment	443,934	(12,305,811)
Balance as at 31 December	62,993,113	60,658,429
Accumulated amortisation		
Balance as at 1 January	49,951,634	56,742,544
Charge for the year	5,668,316	5,514,901
Disposals/adjustment	443,934	(12,305,811)
Balance as at 31 December	56,063,884	49,951,634
Net book value as at 31 December	6,929,229	10,706,795
11.2 Other debtors		
Security charges recoverable	8,044,659	10,312,159
Transitory Suspense related to ATM	26,517,537	16,796,084
Others	109,924,258	323,202,640
	144,486,454	350,310,883

11.3 Deferred tax		
Deferred tax balances are presented in the balance sheet after offsetting asset and liability balances as HSBC Bangladesh has the legal right to set off against each other and intends to settle on a net basis under the local tax jurisdiction. Deferred tax assets and liabilities are attributable to the following:		

	Deferred Tax Assets	Deferred Tax Liabilities	Net Deferred Tax
	2021 BDT	2020 BDT	2021 BDT
Specific provisions on loans and advances	1,034,748,884	207,030,962	-
Fixed assets	63,430,678	87,729,675	-
Right of Use Assets (IFRS 16)	143,446,954	106,601,628	-
Intangible assets	-	(991,975)	(1,479,586)
Actuarial (gain)/losses	353,645,954	288,856,162	-
Foreign exchange translation	6,343,949	(31,984,981)	-
Unrealised interest on amortisation of HTM securities	37,945,030	-	(271,923,817)
Unrealised interest on revaluation of HFT securities	-	(1,290,667)	(1,290,667)
Total	1,633,217,500	696,562,376	(32,976,956)
	(274,694,070)	1,600,240,544	421,868,306

Deferred tax is calculated using the tax rates expected to apply in the periods in which the assets will be realised or the liabilities settled, based on tax rates and laws enacted, by the balance sheet date. Following are the descriptions for each individual item of the deferred tax that are recognised by the Bank as a temporary difference with expected time of realisation.		
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Specific provisions on loans and advances		
As per local tax rules, provisions for bad loans are not tax allowable. Hence these impairment charges are added back to income at the time of computation of total income. However, the tax office will allow the loan write off as a tax allowable expense provided that legal action has been instigated. Therefore this item creates a temporary difference, as at some point of time in the future the Bank will either make recovery or write off the loan. In accordance with IAS 12, the Bank recognises the deferred tax on specific provision which creates a deductible temporary difference to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised.		
The deferred tax will be reversed as soon as the related bad loan is either recovered or written off. Though the expected time frame of recovery is unknown, the bad loans must be written off within 5 years of being classified as per the central bank directives. So the deferred tax is expected to be reversed within five years. The following table shows the year of origin that the Bank recognised the deferred tax assets on such specific provision. The amount recognised and realised in the current year profit and loss is shown in the note 11.4.		
Year of loan classification	Year of deferred tax recognition	Deferred tax amount
		2021 BDT
2011	2012	71,812,934
2013	2014	77,764,511
2020	2020	71,858,267
2021	2021	813,313,172
Total		1,034,748,884
Fixed assets and intangible assets		
As per local tax regulation, accounting depreciation (depreciation rates and calculation methodology are given in note 4.9) is not considered as allowable expense for		

calculation of tax liability. However, the tax authorities allow tax depreciation at different rates as given below:

Furniture and fixtures	10%
Equipment	10%
Motor vehicles	20%
Computers	30%
Intangible assets:	
Software (Developed in Bangladesh)	50%
Software (Imported)	10%

Therefore temporary difference arises due to the different depreciation rates and methodology against which the Bank recognises deferred tax. This is a regular item as there is a difference between the tax depreciation rate and the accounting depreciation rate. However, the outstanding amount of deferred tax will be automatically released with the expiry of the economic useful life of the assets.

ROU Assets IFRS 16		
As per local tax regulation, accounting depreciation and interest of ROU assets under IFRS 16 are not tax allowable expense but lease payment is allowable expense. For that reason we add back depreciation and interest expense and less lease payment amount at the time of calculating taxable profit. This is why a temporary difference arises for which we create deferred tax. However, the outstanding amount of deferred tax will be automatically released with the expiry of the economic useful life of the assets.		

Actuarial gain/(losses)		
The bank recognises deferred tax assets/(liabilities) on actuarial gain/ (loss) arises due to changes in the present value of the defined benefit obligation and fair value of plan assets resulting from experience adjustments and the effect of changes in actuarial assumptions. Deferred tax relating to actuarial gains and losses is recognised directly in other reserve as a part of equity. This is a regular item as the calculation of actuarial gain/loss and deferred tax thereon is recognised on a yearly basis.		

Unrealised interest on amortisation of HTM and revaluation of HFT securities		
The difference between IFRS and Bangladesh Bank guideline on recognition of unrealised interest on the amortisation of Held to Maturity (HTM) securities and revaluation gain of Held for Trading (HFT) securities creates a temporary difference on which the Bank recognises deferred tax. Deferred tax relating to unrealised interest on the amortisation of HTM securities and revaluation of HFT securities is recognised directly in other reserves as a part of equity and subsequently recognised in the profit and loss account on maturity of the securities. The related deferred tax will be released at the maturity of such securities.		

11.4 Movement of deferred tax	2021 BDT	2020 BDT
Balance as at 1 January	421,868,306	171,880,952
(Charge)/credit to profit and loss account (note 11.4.1)	840,751,862	104,723,554
(Charge)/credit to reserves (note 11.4.2)	337,620,376	145,263,800
Balance as at 31 December	1,600,240,544	421,868,306

11.4.1 Deferred tax (charged)/credited to profit and loss account					
	Difference between tax depreciation and accounting depreciation (fixed assets) BDT	Difference between tax depreciation and accounting depreciation (Right of Use Assets) BDT	Difference between tax amortisation and accounting amortisation (intangible assets) BDT	Specific provision on loans and advances BDT	Total BDT
2021					
Balance as at 1 January	87,729,675	106,601,628	(1,479,586)	207,030,962	399,882,679
(Charge)/credit to profit and loss account	(24,298,997)	36,845,326	487,611	827,717,922	840,751,862
Balance as at 31 December	63,430,678	143,446,954	(991,975)	1,034,748,884	1,240,634,541
2020					
Balance as at 1 January	91,865,795	78,456,768	(1,030,051)	125,866,613	295,159,125
(Charge)/credit to profit and loss account	(4,136,120)	28,144,860	(449,535)	81,164,349	104,723,554
Balance as at 31 December	87,729,675	106,601,628	(1,479,586)	207,030,962	399,882,679

11.4.2 Deferred tax (charged)/credited to reserves					
	Actuarial gains/(losses) BDT	Unrealised interest on amortisation of HTM securities BDT	Unrealised interest on revaluation of HFT securities BDT	Foreign exchange translation BDT	Total BDT
2021					
Balance as at 1 January	288,856,162	(271,923,817)	(1,290,667)	6,343,949	21,985,627
(Charge)/credit to reserves	64,789,792	309,868,847	1,290,667	(38,328,930)	337,620,376
Balance as at 31 December	353,645,954	37,945,030	-	(31,984,981)	359,606,003
2020					
Balance as at 1 January	4,789,325	(128,067,498)	-	-	(123,278,173)
(Charge)/credit to reserves	284,066,837	(143,866,319)	(1,290,667)	6,343,949	145,263,800
Balance as at 31 December	288,856,162	(271,923,817)	(1,290,667)	6,343,949	21,985,627

12 Borrowings from other banks, financial institutions and agents		
In Bangladesh:		
Borrowings from Bangladesh Bank (note 12.1)	11,384,325,096	12,458,617,453
Other deposits-vostro account (note 12.2)	-	-
	11,384,325,096	12,458,617,453
Outside Bangladesh:		
HSBC Hong Kong	133,345,551,753	115,052,900,866
Other deposits-vostro account (note 12.2)	38,771,627	33,745,232
	133,384,323,380	115,086,646,098
	144,768,648,476	127,545,263,551

12.1 Borrowings from Bangladesh Bank		
COVID-19 Financial Stimulus Fund	777,547,401	1,124,666,776
Export Development Funds	10,606,777,695	11,333,950,677
	11,384,325,096	12,458,617,453

12.2 Other deposits - Vostro account		
In Bangladesh:		
Prime Bank Limited, Dhaka	-	-
Pubali Bank Limited, Dhaka	-	-



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12.4 Maturity grouping of borrowings from other banks, financial institutions and agents

	2021 BDT	2020 BDT
Payable on demand	816,319,028	624,291,471
Payable within one month	12,595,411,064	1,715,024,911
More than one month but less than three months	4,366,998,891	2,199,135,435
More than three months but less than one year	33,987,095,084	71,921,778,086
More than one year but less than five years	93,002,824,409	51,085,033,648
	144,768,648,476	127,545,263,551

13 Deposits and other accounts

Current deposits and other accounts		
Current account	56,194,106,492	56,475,012,898
Sundry deposits*	11,674,622,967	10,258,443,020
	67,868,729,459	66,733,455,918
Bills payable		
Cashiers order issued	850,868,514	905,809,495
Drawings payable	3,401,087,540	2,115,434,213
	4,251,956,054	3,021,243,708
Saving deposits	27,242,668,042	26,921,373,957
Term deposits		
Short term deposits	12,927,839,954	12,383,106,970
Fixed deposits	43,991,633,717	40,113,107,143
	56,919,473,671	52,496,214,113
	156,282,827,226	149,172,287,696

* Sundry deposits include BDT2,73,11,835 which had remained unclaimed for more than 10 years as of 31 December 2021. As per BRPD circular No. 10 (12 September 2018) unclaimed deposits for 10 years or more are required to be deposited to the Bangladesh Bank by April of the following year. Accordingly, the unclaimed amount will be deposited to Bangladesh Bank by April 2022.

13.1 Maturity analysis of deposits and other accounts

	2021 BDT	2020 BDT
Payable on demand	12,628,287,678	11,624,677,379
Payable within one month	15,841,668,529	9,262,504,509
More than one month but less than three months	25,686,067,606	22,002,727,638
More than three months but less than one year	32,097,104,938	31,353,138,650
More than one year but less than five years	70,029,698,475	74,929,239,520
	156,282,827,226	149,172,287,696

14 Other liabilities

Accrued interest on customer deposits and borrowings	583,181,727	693,623,630
Deferred income	251,164,608	189,209,409
Provisions for liabilities and charges (note 14.1)	964,677,660	843,005,561
Other creditors	579,633,009	742,720,359
Items in course of transmission	165,862,105	128,169,702
Provision for loans and advances and off balance sheet exposures (note 14.2)		
- For loans and advances and off balance sheet exposures	6,603,636,226	4,127,832,185
- Special general provision- COVID-19	14,341,195	12,475,870
Interest suspense account (note 14.3)	689,327,579	459,619,834
Interest received on non performing advances	644,972,483	545,016,538
Provision for taxation (note 14.4)	551,802,161	734,718,096
Provision for start-up fund	91,890,228	-
Payable to Head Office	633,213,796	909,045,750
Unrealised loss on foreign exchange contracts	34,886,446	9,800,927
Leasehold Liabilities under IFRS-16	788,089,119	736,486,392
	12,596,678,342	10,131,724,253

14.1 Provision for liabilities and charges

Balance as at 1 January	843,005,561	864,685,107
Net charge to profit and loss account	1,121,093,305	934,627,291
Provision released	(999,421,206)	(956,306,837)
Balance as at 31 December	964,677,660	843,005,561

14.2 Provision for loans and advances and off balance sheet exposures

	General provision on loans and BDT	General provision on off balance sheet BDT	Total general provisions BDT	Specific provision on loans and advances BDT	Total provision BDT
2021					
Balance as at 1 January	2,358,579,797	1,201,080,271	3,559,660,068	580,647,987	4,140,308,055
Written off (net of recovery) during the year	-	-	-	(19,238,271)	(19,238,271)
Release during the year	-	-	-	(24,482,223)	(24,482,223)
Provision made during the year	12,735,213	352,015,874	364,751,087	2,156,638,773	2,521,389,860
Balance as at 31 December	2,371,315,010	1,553,096,145	3,924,411,155	2,693,566,266	6,617,977,421

2020					
Balance as at 1 January	2,425,309,699	973,933,711	3,399,243,410	764,289,121	4,163,532,531
Written off (net of recovery) during the year	-	-	-	(11,285,833)	(11,285,833)
Release during the year	(66,729,902)	-	(66,729,902)	(173,235,946)	(239,965,848)
Provision made during the year	-	227,146,560	227,146,560	880,645	228,027,205
Balance as at 31 December	2,358,579,797	1,201,080,271	3,559,660,068	580,647,987	4,140,308,055

14.2.1 Required and maintained provision for loans and advances and off balance sheet exposures

	2021 BDT	2020 BDT
Required general provision		
On loans and advances at 0.25% to 2% under different categories of unclassified loans/investments (standard/SMA)	2,356,973,814	2,346,103,926
Special general provision- COVID-19	14,341,195	12,475,870
On off balance sheet exposures @ 1%	1,553,096,145	1,201,080,272
	3,924,411,154	3,559,660,068

Required specific provision		
On substandard loans and advances/investments other than agricultural loans @ 20%	96,936,576	4,224,349
On doubtful loans and advances/investment other than agricultural loans @ 50%	269,773,252	1,710,077
On substandard and doubtful agricultural loans @ 5%	-	-
On bad/loss and advances/investments @ 100%	2,326,856,438	574,713,561
	2,693,566,266	580,647,987
Total required provision	6,617,977,420	4,140,308,055
Total maintained provision	6,617,977,420	4,140,308,055
Surplus/(Shortfall)	-	-

14.3 Interest suspense account

Balance as at 1 January	459,619,834	408,357,731
Recoveries during the year	(1,675,658)	(8,886,824)
Written off during the year	(65,975,981)	(24,315,722)
Provision made during the year	297,359,384	84,464,649
Balance as at 31 December	689,327,579	459,619,834

14.4 Provision for tax net of advance income tax paid

	2021 BDT	2020 BDT
Provision for tax		
Balance as at 1 January	4,012,900,014	4,249,677,891
Provision made during the year		
Onshore unit	2,481,502,587	2,721,970,231
Offshore unit	1,031,706,987	985,396,994
	3,513,209,574	3,707,367,225

Adjustments made during the year		
Onshore unit	(2,721,970,231)	(2,822,051,825)
Offshore unit	(985,396,994)	(1,122,093,277)
	(3,707,367,225)	(3,944,145,102)
Balance as at 31 December	3,818,742,363	4,012,900,014

Advance income tax paid		
Balance as at 1 January	3,278,181,918	2,935,136,074
Amount paid during the year	3,572,126,460	4,369,661,283
Adjustments made during the year	(3,583,368,176)	(4,026,615,439)
Balance as at 31 December	3,266,940,202	3,278,181,918
Net provision	551,802,161	734,718,096

Provision for income tax is on the basis of applicable income tax regulations of Bangladesh. Tax return for the financial year ended 31 December 2021 is expected to be filed with the tax authorities by the due date of 15 September 2022.

The assessment for the accounting years 2006, 2007, 2009, 2010, 2011, 2012, 2013, 2016, 2017 and 2018 are yet to be finalised. The tax authorities have not accepted the Bank's excess profit computation for the period 2006, 2007, 2009, 2010, 2011 and 2012 on the grounds that they do not consider various other components, including retained earnings to be part of capital of the Bank.

For accounting year 2006, 2007, 2009, 2010, 2011, 2012 and 2013 the Bank has filed reference application to the High Court against the order of the Taxes Appellate Tribunal. For accounting year 2016 appeals have been filed by tax authority against order of the Commissioner of Taxes (Appeal) to the Appellate Tribunal. For the accounting years 2017 and 2018 bank is yet to receive the assessment order on the audit from the tax authority.

Management believes that general provision, retained earnings and some of the other components that have been disregarded by the tax authority are part of capital and are considered as core capital in the capital adequacy calculation as per the Bank Company Act 1991. During 2013, there were some additional explanation included in the said act relating to the definition of capital and subsequently Bangladesh Bank has also provided some additional clarification to National Board of Revenue on the issue. Management believes both of these have strengthened the bank's tax position as stated above. The Bank's legal counsel has the same opinion. Hence no provision is made for the same. This is notable that the "Excess Profit Tax" related section 16C of the Income Tax Ordinance 1984 has been omitted by Finance Act 2016.

15 Capital

	2021 BDT	2020 BDT
Fund deposited with Bangladesh Bank at 1 January	3,135,747,494	3,135,747,494
Exchange difference:		
USD 35,938,625 × (85.3417 - 84.4505)		
2020: USD 35,938,625 × (84.4505 - 84.4505)	32,028,503	-
Funds deposited with Bangladesh Bank at 31 December	3,167,775,997	3,135,747,494

16 Other reserves

Unrealised interest on amortisation of HTM securities		
Opening balance	407,885,725	192,101,247
Unrealised interest on amortisation of HTM securities during this year	(94,786,545)	679,809,544
Unrealised interest on amortisation of HTM securities realised during this year	(679,885,572)	(320,168,747)
	(774,672,117)	359,640,797
	309,868,847	(143,856,319)
	(464,803,270)	215,784,478
	(56,917,545)	407,885,725
Deferred tax liabilities (note 11.4.2)		

Unrealised interest on revaluation of HFT securities		
Opening balance	1,936,001	-
MTM reserve for HFT during this year	-	3,226,668
MTM reserve for HFT realised during this year	(3,226,668)	-
	(3,226,668)	3,226,668
	1,290,667	(1,290,667)
	(1,936,001)	1,936,001
	-	1,936,001

Actuarial gain/(loss):		
Opening balance	(433,284,241)	(7,183,986)
Actuarial gain/(loss) during this year (note 24.2.4)	(161,974,481)	(710,167,092)
Less: Deferred tax assets (note 11.4.2)	64,789,792	284,066,837
	(97,184,689)	(426,100,255)
	(530,468,930)	(433,284,241)

Foreign Exchange Translation Reserve:		
Opening balance	(9,515,923)	-
Translation gain/(loss) during this year	95,822,323	(15,859,872)
Less: Deferred tax assets (note 11.4.2)	(38,328,930)	6,343,949
	57,493,393	(9,515,923)
	47,977,470	(9,515,923)
	(539,409,005)	(32,978,438)

17 Profit and loss account

Opening balance	38,929,347,049	34,950,894,242
Profit for the year	3,783,679,299	5,405,343,487
Exchange difference	(21,419,912)	15,859,872
Provision for Start-up Fund	(91,890,228)	-
Profit remitted to head office	(2,398,115,033)	(1,442,750,552)
Closing balance (note 33.6)	40,201,601,17	38,929,347,049

18 Contingent liabilities

Acceptances and endorsements	33,715,554,489	23,167,354,853
	33,715,554,489	23,167,354,853

Letters of guarantee:		
Money for which the Bank is contingently liable in respect of guarantees given favouring Government Bank and other financial institutions	72,153,297,847	63,210,614,791
Others	2,175,345,793	554,721,681
	13,444,202,561	11,032,432,807
	87,772,846,201	74,797,769,279

Others		
Irrevocable letters of credit	86,781,076,601	74,744,921,979
Foreign exchange contracts - spot and forward	2,673,364,702	3,628,905,484
	89,454,441,303	78,373,727,463
	210,942,841,993	176,338,851,595

19 Interest income and profit received

Staff loans	43,432,899	48,600,062
Home mortgage loans	61,429,950	64,101,665
Car loans	14,852	6,136
Personal loans	135,073,277	287,449,648
Overdraft	330,830,767	375,013,142
Term loans	2,309,058,307	2,877,253,423
Import loans	1,473,459,918	2,849,780,905
Working capital	2,805,396,107	3,210,135,666
Export and import bills	2,647,479,655	3,260,593,105
Income from money market	14,246,403	61,429,417
Other correspondent bank	3,241,703	1,716,555
Income from nostro accounts	182,544	256,001
Income from inter-group lending	741,549	16,579,031
Income from Bangladesh Bank foreign currency account	19,630,585	73,746,439
	9,844,218,517	13,126,661,195

20 Interest and profit paid on deposits and borrowings

	2021 BDT	2020 BDT
Saving accounts	341,908,681	805,227,682
Term deposits	1,258,549,910	2,299,343,964
Marginal deposit	34,789,576	8,000,953
Interest paid on lease	76,938,110	82,523,123
Interest on vostro and overdrawn nostro	2,040,422	5,176,585
Money market call borrowing	732,500	152,083
Money market term borrowing	140,808,647	209,962,344
Borrowing from banks	306,495,578	1,352,705,702
Interest on repo	12,553,462	4,835,740
	2,174,816,886	4,767,928,176

21 Income from investment

Interest on treasury bills/bonds	1,993,408,677	2,042,547,345
Dividend on shares	7,500,000	4,500,000
	2,000,908,677	2,047,047,345

22 Commission, exchange and brokerage

Exchange income/loss	1,370,627,685	1,319,025,263
Commission income:		
Import LC	2,317,664,409	1,810,243,807
Export LC	399,210,694	333,919,230
Remittances	12,133,388	14,768,956
Account services	35,837,277	29,704,924
Credit facilities	219,448,343	299,042,035
Collection bills	232,026	212,681
Global custody	75,255,546	76,857,095
Other commissions and charges	257,829,646	278,292,800
	3,317,611,329	2,843,041,528
	(69,411,228)	(55,704,614)
	3,248,200,101	2,787,336,914
	4,618,827,786	4,106,362,177
Commission paid		

23 Other operating income

Profit/(loss) on disposals of fixed assets	(5,741,466)	510,352
Other income	8,779,248	7,164,168
	3,037,782	7,674,520

24 Salaries and allowances

Short term employee benefits		
Basic salary	1,554,785,736	1,381,914,115
Allowances	300,666,572	470,435,012
Bonus	543,375,987	456,195,662
Others	257,654,124	220,469,471
	2,656,482,419	2,529,014,260

Long term employee benefits		
Bonus	4,156,205	11,372,752
	4,156,205	



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27 Other operating expenses

	2021 BDT	2020 BDT
Charitable donation	98,473,191	33,987,915
Subscription of corporate member fees	20,225,109	5,042,757
Training and entertainment expenses	23,381,229	3,494,336
Staff entertainment expenses	8,233,459	8,903,773
Outsourced service cost	121,602,728	114,983,932
Security expenses	56,522,662	73,269,465
Staff recruitment costs	1,426,234	545,229
Transportation and conveyance expenses	43,620,295	42,900,794
Generator, motor vehicles fuel and other charges	1,731,370	1,054,004
Central storage cost	54,998,468	63,138,262
Short term lease expenses	16,896,768	35,057,647
Other office expenses	120,471,563	71,432,713
Head office expense	633,213,796	909,045,750
	1,200,796,872	1,362,856,577

28 Capital adequacy under Basel III

Total Risk Weighted Assets (RWA) as on 31 December	212,653,307,867	191,772,505,802
12.50% of RWA under Basel III (including capital conservation buffer)	26,581,663,483	23,971,563,225
Required capital: The higher of 12.50% of RWA or BDT4 billion	26,581,663,483	23,971,563,225

Actual Capital maintained

Common Equity Tier I

Fund deposited with Bangladesh Bank	3,167,775,997	3,135,747,494
Retained earnings	40,201,601,175	38,929,347,049
Actuarial gain/(loss)	(530,468,930)	(433,284,241)
Less: Regulatory adjustment for Goodwill and all other intangible assets as per the Bangladesh Bank guideline	(4,449,291)	-
Less: Regulatory adjustment for Deferred tax assets as per the Bangladesh Bank guideline	(1,581,480,055)	(686,210,828)
Less: Regulatory adjustment due to WPPF	(2,295,163,640)	-
	38,957,815,256	40,945,599,474

Additional Tier I

	-	-
	-	-
Total Tier I	38,957,815,256	40,945,599,474

Tier II

General provision	3,924,411,155	3,559,660,068
	3,924,411,155	3,559,660,068

Total capital	42,882,226,411	44,505,259,542
Surplus	16,300,562,928	20,533,696,317

% of Capital adequacy required

Common Equity Tier - I	7.00%	7.00%
Tier - I	6.00%	6.00%
Total	12.50%	12.50%

% of Capital adequacy maintained

Common Equity Tier - I	18.32%	21.35%
Tier - I	18.32%	21.35%
Total	20.17%	23.21%

29 Cash and cash equivalents

Cash in hand	1,014,282,551	1,007,157,774
Balance with Bangladesh Bank	25,182,489,035	35,699,330,137
Balance with other banks and financial institutions	5,411,626,572	5,622,068,507
Money at call on short notice	14,508,089,000	-
Prize bonds	588,500	1,039,100
91 day Treasury bills	11,709,464,759	3,796,812,616
	57,826,540,417	46,126,408,134

30 Amanah Banking

The Bank established an Islamic Banking Branch (Amanah branch) based on Islamic Shariah Principles from 26 February 2004. Following a strategic review of all business and operations around the world, the Group decided to restructure its Islamic banking business and no longer offers Shariah compliant products and services in Bangladesh. Under the restructuring procedure, the existing books of Amanah business will run-off up to the maturity as per Bangladesh Bank approval letter ref no. BRPD (P-3)745(37)/2013-1693 dated 10 April 2013.

A separate set of financial statements for Amanah is required to prepare in accordance with the Banking Regulation and Policy Department (BRPD) Circular No 15 (9 November 2009). This is notable that the Bank discontinued Amanah business since 2013 and got dispensation from Bangladesh Bank vide letter ref no. DOS (SR)1153/127/2014-424 dated 28 December 2014 from preparing a separate set of financial statements for Amanah. However, as required by the dispensation letter of Bangladesh Bank, the Bank provided disclosures in note 31.1 to 31.4 to comply the disclosures requirement of Amanah. As there is no Amanah operation at present, operating expense is not allocated to Amanah.

30.1 Amanah Balance Sheet as at 31 December

	2021 BDT	2020 BDT
Assets		
Cash in hand	-	-
Balance with Bangladesh Bank	2,500,000	2,500,000
Investments	190,712,356	265,702,322
Fixed assets	-	-
Other assets	219,869,188	160,541,927
	413,081,544	428,744,249
Liabilities		
Placement from banks and other financial institutions	-	-
Deposits and other accounts	5,573,851	6,932,079
Other liabilities	33,829,797	43,776,403
Retained earnings	373,677,896	378,035,767
	413,081,544	428,744,249
Off balance sheet items		
Acceptances and endorsements	-	-
Letters of guarantee	-	-
Irrevocable letters of credit	-	-
Foreign exchange contracts - Spot and Forward	-	-
	-	-

30.2 Amanah Profit and Loss Account for the year ended 31 December 2021

Income from investments	16,059,038	20,523,790
Profit paid on deposits	(275)	(334)
Net investment income	16,058,763	20,523,456
Commission, exchange and brokerage	302,216	187,773
Other operating income	-	-
Total operating income	16,360,979	20,711,229
Salaries and allowances	-	-
Rent, taxes, insurance, electricity etc.	-	-
Legal expenses	-	-
Postage, stamps, telecommunication etc.	-	-
Auditors' fee	-	-
Stationery, printing and advertisement	-	-
Depreciation and repair of Bank's assets	-	-
Other operating expenses	(75,093)	-
Total operating expense	(75,093)	-
Profit before provision	16,436,072	20,711,229

Specific provision for classified investments	2,477,985	83,189
General provision for unclassified investments and off balance sheet exposures	(924,611)	294,428
Total provision	1,553,374	377,617
Profit before tax	14,882,698	20,333,612
Current Tax	6,574,429	8,284,491
Profit after tax for the year	8,308,269	12,049,121

30.3 Amanah Assets and Liabilities Maturities Analysis as at 31 December 2021

Particulars	Maturity within 1 month BDT	Maturity within 1 to 3 months BDT	Maturity within 3 to 12 months BDT	Maturity within 1 to 5 years BDT	Maturity over 5 years BDT	Total BDT
Assets						
Cash in Hand	-	-	-	-	-	-
Balance with Bangladesh Bank	2,500,000	-	-	-	-	2,500,000
Money at call on short notice	-	-	-	-	-	-
Investment	1,090,273	389,343	1,517,380	14,300,850	173,414,510	190,712,356
Fixed assets	-	-	-	-	-	-
Other assets	-	-	-	219,869,188	-	219,869,188
Non-banking assets	-	-	-	-	-	-
Total assets	3,590,273	389,343	1,517,380	234,170,038	173,414,510	413,081,544
Liabilities						
Placement from other banks and financial institutions	-	-	-	-	-	-
Deposits and other accounts	5,573,851	-	-	-	-	5,573,851
Other liabilities (including capital/shareholders' equity)	-	-	33,829,797	373,677,896	-	407,507,693
Total liabilities	5,573,851	-	33,829,797	373,677,896	-	413,081,544
Net liquidity difference	(1,983,578)	389,343	(32,312,417)	(139,507,858)	173,414,510	-

30.4 (i) Amanah Cash Reserve Ratio (CRR):

	2021 BDT	2020 BDT
Daily 3.50% of average total demand and time liabilities		
Required reserve	223,627	222,669
Actual reserve held with Bangladesh Bank	2,500,000	2,500,000
Surplus	2,276,373	2,277,331

ii) Amanah Cash Reserve Ratio (CRR):

	2021 BDT	2020 BDT
Bi-weekly 4.00% of average total demand and time liabilities		
Required reserve	255,574	254,479
Bi-weekly average reserve held with Bangladesh Bank	2,500,000	2,500,000
Surplus	2,244,426	2,245,521

(iii) Amanah Statutory Liquidity Ratio (SLR):

	2021 BDT	2020 BDT
5.50% of average total demand and time liabilities		
Required reserve	351,414	349,909
Bi-weekly actual reserve held with Bangladesh Bank	2,244,426	2,245,521
Surplus	1,893,011	1,895,612

31 Related party transactions

The related parties of the Bank include HSBC Holdings plc, other group entities, post-employment benefit plans for HSBC employees, Key Management Personnel, close family members of Key Management Personnel and entities which are controlled or jointly controlled by Key Management Personnel or their close family members.

The Bank, not being incorporated in Bangladesh, operates in Bangladesh under the banking license issued by Bangladesh Bank and therefore the Key Management Personnel of the Bank for the purposes of IAS 24 are defined as those persons having authority and responsibility for planning, directing and controlling the Bank, being members of the Board of Directors of the Group, Group Managing Directors, and close members of their families and companies they control, or significantly influence, or for which significant voting power is held.

31.1 Transactions with key management personnel

There were no transactions between the Bank and the key management personnel of the Bank in 2021 (2020: nil)

31.2 Transactions, arrangements and agreements involving group entities

The Bank provides and receives certain banking and financial services to/from entities within the Group. As at year end the balances with these entities is disclosed in note 6, Balance with other banks and financial institutions and note 12, Borrowings from other banks, financial institutions and agents.

The disclosure of the year end balance is considered to be the most meaningful information to represent transactions during the year. The outstanding balances include loans made to or deposits by the Bank and arose in the ordinary course of business and are on substantially the same terms, including interest rates and security, as for comparable transactions with third party counterparties. Income received by the Bank from these entities during 2021 amounted to BDT123,666,896 (2020: BDT213,876,069) and expense paid to these entities during 2021 amounted to BDT355,734,283 (2020: BDT1,392,413,473), both of which is included in the net interest income and Commission, exchange and brokerage income disclosed in the profit and loss account.

31.3 Transactions with post employment benefit plans

The Bank has two post employment benefit schemes, the nature of which is disclosed in note 4.18, Employee benefits. There were no balances payable to these schemes or due from these schemes to the Bank as at the end of 2021 (2020: Nil). The total contribution to these schemes in 2021 by the Bank is disclosed in note 24, salaries and allowances.

The responsibility for fund management and administration of these schemes rest with the Trustees of these schemes, however, these functions are delegated to the Bank's Human Resources (HR) department. The Bank does not charge these schemes any fees for the day to day fund management or administrative services.

As allowed by the Trust Deed of these schemes, scheme funds may be deposited with the Bank. As at 31 December 2021 the provident fund had placed deposit of BDT111,659,736 (2020: BDT47,375,783) and the gratuity fund had placed deposits of BDT1,941,801,775 (2020: BDT1,693,496,316) with the Bank.

These transactions arose in the ordinary course of business and are on substantially the same terms, including interest rates and security, as for comparable transactions with third party counterparties. Interest expense incurred by the Bank on deposits placed by the provident fund in 2021 amounted to BDT473,313 (2020: BDT2,566,939) and on deposit placed by the gratuity fund in 2021 amounted to BDT11,043,993 (2020: BDT11,377,798), both of which are included in the interest expense disclosed in the profit and loss account.

32 Events after the balance sheet date

There were no material events after the balance sheet date that may require adjustment or disclosure.

33 General

33.1 Core risk management

BRPD circular no.17 (7 October 2003), BRPD circular no.4 (5 March 2007) and DOS Circular no. 04: Risk Management Guideline (08 October 2018) require banks to put in place an effective risk management system. Bangladesh Bank monitors the progress of implementation of these guidelines through its on-site inspection teams through routine inspection. The risk management systems in place at the Bank are discussed below.

33.1.1 Credit risk

HSBC has historically sought to maintain a conservative, yet constructive and

competitive credit risk culture. This has served the Group well, through successive economic cycles and remains valid today. This culture is determined and underpinned by the disciplined credit risk control environment which the Group has put in place to govern and manage credit risk, and which is embodied in the formal policies and procedures adopted by HSBC Bangladesh. These are articulated through Group credit policies supplemented by Regional and Local Area Lending Guidelines, backed up by the Bangladesh Bank's regulations and guidelines. Formal policies and procedures cover all areas of credit lending and monitoring processes including:

- The Group credit risk policy framework
- Governance and authorities
- Risk appetite and evaluation of facilities
- Key lending constraints, higher risk sectors and sustainability risk
- Risk rating systems
- Facility structures
- Lending to Banks, Non-Banks and Sovereigns
- Personal lending
- Corporate and commercial lending
- Portfolio management and stress testing
- Monitoring, control and the management of problem exposures
- Impairments and allowances

At the heart of these processes is a robust framework of accountability. HSBC operates a system of personal credit authorities, not credit committee structures. However, the Bank has set up a Risk Management Meeting (RMM) comprising all the members of the Asset Liability Committee (ALCO) and other risk related function heads to manage various risks within the Bank including credit risk. Relationship managers are held accountable for both the profitability and growth of their loan portfolios as well as the losses that may arise within them.

33.1.2 Asset liability management risk

For better management of asset and liability risk, the Bank has an established Asset Liability Management Committee (ALCO) which meets at least once a month. The members of ALCO, as at 2021 year end, were as follows:

Mr. Md. Mahbub ur Rahman (Chairman)	Chief Executive Officer
Mr. Moinuddin Akhand (Secretary)	Chief Financial Officer (Acting)
Mr. Kevin Green	Head of Wholesale Banking
Mr. Ahmed Saiful Islam	Head of Wealth and Private Banking
Mr. Bashar M Tareq	Head of Markets and Security Services
Mr. Mohammad Omar Faruque	Associate Director, Treasury Balance Sheet Management
Mr. Naved Mahbub	Chief Risk Officer (Acting)
Mr. Aminul Haque	Head of Asset Liability and Capital Management

The Committee's primary function is to formulate policy and guidelines for the strategic management of the Bank using pertinent information that has been provided through the ALCO process together with knowledge of the individual businesses managed by members of the Committee. ALCO regularly reviews the Bank's overall asset and liability position, forward looking asset and liability pipeline, overall economic position, liquidity risk, capital adequacy, balance sheet risk, interest rate risk and makes necessary changes in product and balance sheet mix as and when required. Specific responsibilities include reviewing liquidity limits, capital requirements management, managing balance sheet growth, optimising the allocation and utilisation of all resources, understanding balance sheet dynamics, i.e. the interaction between asset and liability portfolios, and issues such as Fund Transfer Pricing, Interest Rate Risk Behaviouralisation, Liquidity Premium and Liquidity Recharges, asset and liability pricing policy.

The Bank has adopted International Basel III liquidity and funding framework which is also adopted by Bangladesh Bank (BB) to ensure financial flexibility to cope with unexpected future cash demands. ALCO monitors the liquidity and funding ratio on an ongoing basis and ascertains liquidity requirements under various stress situations. In order to ensure liquidity against all commitments, the Bank reviews the behavior patterns of liquidity requirements. The Bank has an approved Liquidity, Funding and Capital Plan which is reviewed and updated on an annual basis by ALCO. All regulatory requirements including CRR, SLR, CAR, ICAAP and RWA are reviewed and approved by ALCO.

33.1.3 Foreign exchange risk

Foreign exchange risk is defined as the potential change in earnings arising due to change in market price and the position in the currency that is held during the change. Such risk may arise from positions held in various foreign exchange products like spot and forward. In an effort to ensure such risks are managed efficiently with caution and higher authorities consent, Bangladesh Bank issued a guideline for foreign exchange transactions in 2009, later revised in 2018 The Bank has a Functional Instruction Manual (FIM) covering foreign exchange risk policies and investment policy. The Bank has also developed different strategies to handle foreign exchange risk by setting limits on net open positions by currencies, mismatch limits by currency and time buckets of forward foreign exchange transactions, overall gross limits for forward (FWD) transaction, maximum loss limits per day and per month, as well as Value at Risk (VAR) limits. All the limits mentioned here are monitored and managed on a daily basis. And there are separated independent Product control team to monitor and highlight any concerns/issues.

The Bank maintains various nostro accounts in order to conduct operations in different currencies including BDT. The senior management of the Bank set limits for handling nostro account transactions.

As at 31 December 2021 the Bank has no unadjusted debit entry exceeding three months, as a result, in accordance with (FEFD) circular No. 677 (13 September 2005) no provision on nostro balances are maintained.

33.1.4 Internal control and compliance

Effective internal controls are the foundation of safe and sound banking. A properly designed and consistently enforced system of operational and financial internal control helps a bank's management to protect the bank's resources, produce reliable assurance over the financial reports and compliance with laws and regulations. Effective internal control system not only reduces the possibility of significant errors and irregularities but also helps to detect and prevent exceptions in a timely manner. The Group policy requires the Bank to comply with the requirements of relevant rules and regulations of the jurisdictions within which, the Bank operates. Therefore, in line with the Bangladesh Bank Guideline on 'Internal Control & Compliance', the Bank has prepared and implemented appropriate Internal Control and Compliance guidelines. In addition, the Group has robust manuals, policy and procedures, entitled Group Standards Manual (GSM), Functional Instruction Manual (FIM), Business Instruction Manual (BIM) and the Compliance Officer's Handbook, which bring together all the standards and principles we use in the conduct of our business, regardless of its location or nature.

HSBC follows a 3 Lines of Defence (LoD) model to define roles and responsibilities within HSBC. This 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. The First LOD has ultimate ownership for risk and controls and delivering fair conduct outcomes. Risk Owners are accountable for identifying, assessing, managing and reporting key existing and emerging risks that they own for their business or function in line with the risk appetite set by the Board. The Second LOD review and challenge the First LOD's activities to help ensure that risk management decisions and actions are appropriate, within risk appetite and support the delivery of conduct outcomes. The Second LOD is independent of the risk-taking activities undertaken by the First LOD and includes CROs, Risk Stewards and the Operational Risk function. Risk Stewards are accountable for setting policy and control standards to manage risks, providing advice and guidance to support these policies, and challenging the First LOD to ensure it is managing risk effectively.

Our Third LOD is Internal Audit. Internal Audit provides independent assurance to management and the non-executive Risk and Audit Committees that our risk management, governance and internal control processes are designed and operating effectively. The Global Internal Audit (GBL INA) function, which is centrally controlled from Group Internal Audit in UK, provides independent assurance with respect to the design and operating effectiveness of the risk management and control frameworks across the Group, focusing on the areas of greater risk to HSBC by using a risk-based approach. The Head of Country Audit team reports to Senior Manager, Asia Pacific (ASP) Regional Audit team. Senior Manager, ASP Regional Audit reports to the Head of International Audit, Asia Pacific; who reports to the Global Head of Internal Audit, ASP who reports to the Regional Board Audit Committee. The country executive management is responsible for ensuring that the audit action plans sorted by the Internal Audit function are implemented within an appropriate and agreed timetable. GBL INA assesses both the design and operating effectiveness of HSBC's internal governance structures and processes and controls to consider if they comply with



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relevant laws and regulations, internal policies and are appropriate for the size, complexity and risk profile of the organisation based on the risk assessment and GBL INA audit methodology.

33.1.5 Prevention of money laundering and terrorist financing

HSBC is one of the 13 global banks in the 'Wolfsburg Group' which is an internationally acknowledged body setting financial crime risk management standards, especially with respect to anti-money laundering and counter terrorist financing policies. Consequently, HSBC has clear policies and procedures in place to manage money laundering and terrorist financing risks across all its operations around the globe.

Management of money laundering and terrorist financing risks is part of HSBC's broader operational risk management framework which articulates clear demarcation of roles and responsibilities between the three lines of defense.

More specifically, to manage these risks, HSBC Bangladesh, a branch office of HSBC Hong Kong, follows relevant risk management policies set by HSBC Group and complies with all the requirements mandated by applicable regulators i.e. Bangladesh Financial Intelligence Unit (BFIU) and Hong Kong Monetary Authority (HKMA). As a result, HSBC Bangladesh has localised policies and procedures which are appropriately governed, and implemented and reinforced through regular oversight and periodic testing.

The Compliance function of HSBC, headed by a Chief Compliance Officer, who also acts as the Chief Anti-Money Laundering Compliance Officer or the 'CAMLCO', has a dedicated specialized Financial Crime (FC) Risk and a Compliance Advisory team that provides the policy, framework and oversight to Businesslines, Functions and Operations, leveraging specialist capabilities, data and technology to enable the bank to serve the needs of its customers and grow safely.

Compliance maintains enterprise-wide governance and oversight over these risk areas, promptly drawing focus on top and emerging risks and areas of weakness. The team also conducts financial crime risk related investigations and proactively acts on relevant market intelligence to safeguard the bank. It also operates an Assurance sub-function which performs risk-based independent testing of relevant controls established to manage the aforesaid risks. Additionally oversight is ensured through the quarterly Central Compliance Committee meeting and the monthly Risk Management Meeting, which are chaired by the CAMLCO and Chief Risk Officer respectively and attended by the members of the Executive Committee and Senior Compliance leaders.

The matured organizational framework as described above, together with a consistent tone from the top and a culture of continued investment into staff development/training, has helped HSBC Bangladesh to materially improve its financial crime risk control environment. Focus will remain in proactively identifying and acting on issues, further improving the control environment in line with evolving risk landscape and regulation, and maintaining the rigor of risk management which has developed over time.

33.1.6 Information technology

The Bank has its Information Technology (IT) Department which includes Infrastructure Delivery, Application Development and Maintenance and Cybersecurity team for the support, service, software development and cybersecurity of IT systems where the core system is centralised in Hong Kong. Though much of the Bank's systems are built for Group purpose there are some sophisticated applications developed locally or purchased from third party vendors as and when required following a Risk Based Project Management (RBPM) methodology. The IT department has a Performance Level Agreement (PLA) for all global and local applications for service quality assurance which describes all the IT services with target service up-time and response time for troubleshooting or any IT related requests. The IT department provides monthly reports to DBS Control Environment Management Meeting (CEMM) chaired by in country Chief Operating Officer (COO) for the senior management which covers the following:

- Update on major IT related Risk issues and mitigation plan/timeline
- Internal and external Audit Status and remediation progress related to IT
- System Incident report

HSBC Bangladesh has an approved internal ICT Security Policy (approved by Executive Committee of the bank) as per Bangladesh bank (BB) ICT security guideline requirement. HSBC Bangladesh has ICT Steering and Security Committee, DBS Compliance Council, Third Party Governance Forum (TPGF) to look after ICT and Cybersecurity related risk and controls, regulatory and legal requirement related to ICT security and IT Outsourcing compliance as mandate by BB ICT Security policy and Outsourcing policy. Besides, various awareness sessions are taken by Cybersecurity team to increase information security awareness among staff and third party vendors. It is to be noted that bank undertakes annual ICT audit as per BB ICT security guideline requirement and open issues are tracked in respective risk forum. In NOV21 bank has obtained ISO-27001 certification for its IT and Cyber security function as recommended by BB.

The Bank has a robust Business Recovery Plan (BRP) in place to ensure business continuity in case of any major disaster and aligned with BB ICT Security policy requirement. There are few applications (BACH, BEFTN, RTGS & NPSB) which do not have Disaster Recovery (DR) facility due to dependency on BB.

33.2 Audit Committee

According to BRPD circular no.12 (23 December 2002), all banks are advised to constitute an audit committee comprising of members of the board. The audit committee will assist the board in fulfilling its oversight responsibilities including implementation of the objectives, strategies and overall business plans set by the board for effective functioning of the bank. The committee will review the financial reporting process, the system of internal control and management of financial risks, the audit process, and the bank's process for monitoring compliance with laws and regulations and its own code of business conduct.

The Bank, being a Branch of a foreign bank, does not have a local board of directors from whom to select an audit committee locally; however, the Bank has received a dispensation from Bangladesh Bank on 19 December 2006 with regards to this requirement. The Bank has an Audit Committee in UK, comprising of at least three independent non-executive directors of the Group. The committee meets on a regular basis with the senior management of the Group, and with the internal and external auditors to consider and review the nature and scope of the reviews as well as the effectiveness of the systems of internal control and compliance and the financial statements of the Group.

The Group Head of Internal Audit reports to the Chairman of the Group Audit Committee and frequent meetings are held between them during the year. Administratively the Group Head of Internal Audit reports to the Group Chief Executive. Executive management is responsible for ensuring that issues raised by the Global Internal Audit function are addressed within an appropriate and agreed timetable. Confirmation to this effect must be provided to Global Internal Audit. There are quarterly Townhalls (Global Alignment Sessions) arranged regularly to align all the country internal audit teams across the globe with the latest update from the HSBC Group Audit Committee. The Bank is subject to regular periodic regulatory and risk based audits by the internal audit of HSBC in liaison with the auditors from the regional and global teams, where necessary. All internal audit reports are subject to quality assurance by the Global Quality Control team prior final issuance.

33.3 Disclosure on risk based capital (Basel III)

To comply with international best practice and to improve risk management in the banking sector as well as strengthen the ability of the sector to absorb shocks, Bangladesh Bank implemented Basel III capital requirements from 2015 through BRPD circular no. 18 dated 21 December 2014 on revised Risk Based Capital Adequacy Guideline for Banks under BASEL III Accord. As per the directive of Bangladesh Bank all scheduled banks are required to report risk based capital adequacy for banks under Basel III. All scheduled banks are also required to make disclosures in both qualitative and quantitative terms. As a branch of the world's leading financial services institution, HSBC Bangladesh has made disclosures as per Pillar-III, market discipline of the revised capital adequacy framework of Bangladesh Bank (For details see annexure - F) in accordance with DOS circular no. 34 (10 November 2020).

33.4 Exchange rates

The assets and liabilities as at 31 December in foreign currencies have been converted to BDT at the following rates:

	2021 BDT	2020 BDT
USD 1 =	85.34170	84.45050
HKD 1 =	10.94195	10.89332
SGD 1 =	63.07124	63.74585
GBP 1 =	115.08328	114.92869
AUD 1 =	61.99221	64.72286
EUR 1 =	96.58974	103.64610
CHF 1 =	93.19832	95.45665
JPY 1 =	0.74110	0.81891
CAD 1 =	66.76187	66.09572

NOK 1 =	9.67659	9.84891
AED 1 =	23.23424	22.99099
CNY 1 =	13.38903	12.94023
DKK 1 =	12.98881	13.93182

33.5 Credit ratings

According to BRPD circular no.6 (05 July 2006) it is mandatory from January 2007 for all banks to be credit rated by a credit rating agency. Credit Rating Agency of Bangladesh Limited (CRAB) has issued the following ratings for the Bank for 2021:

Long-term AAA

Short-term ST - 1

According to CRAB, financial institutions rated in this category are adjudged to be of highest quality, offer highest safety and highest credit quality. This level of rating indicates exceptionally strong capacity for timely payment of financial commitments, highly unlikely to be adversely affected by foreseeable events. The short term rating indicates highest certainty with regard to the Bank's capacity to meet its financial commitments. Safety is almost like risk free government short term securities.

33.6 Composition of Retained Earnings/Profit and loss account

HSBC Bangladesh maintains sufficient retained earnings to strengthen its capital base and meet any unforeseen future liability.

As there is significant ambiguity around the inclusion of Banking and Non-Banking Financial Institutions within the scope of Chapter XV: Worker's Profit Participation Fund ('WPPF') under the Bangladesh Labour Act, 2006 (the 'Act') and the subsequent amendments thereof, the Bank has sought external legal opinion. As per the Act and amendments thereof, an employer is required to pay 5% of its net profit (as defined under the Act) to the 1) Worker's Participation Fund 2) Worker's Welfare Fund and 3) Labour Trust Foundation Fund for further appropriate disbursement of the funds to all members (i.e. 'Beneficiaries', as defined under the Act) as prescribed under the Act. As per the external legal opinion sought by the Bank, the inclusion of Banks within the scope of the WPPF under the Bangladesh Labour Act, 2006 is in contradiction with the relevant provisions under The Bank Company Act, 1991. These ambiguities are yet to be settled and the Bank is seeking clarifications from appropriate Authorities. On the basis of the facts currently known and external legal opinions, management believes that the probability of a legal obligation for payments out of WPPF is low at the current stage and hence, no provision has been made for the same. However as long as the issue is not resolved, HSBC Bangladesh is maintaining sufficient retained earnings till dates to meet any future liability in this regard which is estimated as BDT2,295,163,640 as of 31 Dec 21.

33.7 Compliance of Borrowers Audited Financial Statement Management

As per BRPD circular No.04 (04 January 2021), BRPD circular No. 35 (06 July 2021), bank has been advised to keep the latest audited financial statement with loan file and to validate the respective financial figure with data already available in DVS system of ICA.

As per FRC letter reference 178/FRC/APR/2021/27/(55) dated 12 December 2021, bank has been instructed to disclose the compliance status of the aforementioned circulars. HSBC Bangladesh is complying the above regulatory instructions. As of 31 December 2021, bank has preserved 92% audited financial statement and verified respective financial data of 97% customers those are fallen under the purview of the above circulars.

Status of Preserving Audited Financial Statement	
Total Number of eligible borrowers	478
Borrowers with audited financials stored in CARM	439
% of audited financials preserved in CARM	92%
Status of financial data verification from DVC system	
Total Number of eligible borrowers	273
Borrowers with latest audited financials dated 31 Dec 20 and later	77
DVC verified	75
% of DVC verification	97%

33.8 Non-Banking Asset (NBA)

As per BRPD Circular No. 22 (20 September 2021) on Policy for Non-Banking Asset (NBA) bank has been advised to separately disclose the non-banking assets in its financial statements if bank holds any such type of assets.

As of Dec'21, HSBC does not hold, sale and convert any NBA into fixed asset.

33.9 The net amount of foreign currency exposure as at 31 December 2021 was BDT 3,448,396,395.

33.10 The Bank has no secured liabilities against which assets has been pledged as security.

33.11 The figures appearing in these financial statements have been rounded off to the nearest Taka (BDT).

33.12 Previous year's figures have been rearranged, wherever necessary, to conform with current year's presentation.

Md Mahbub ur Rahman	Moinuddin Akhand
Chief Executive Officer, Bangladesh	Acting Chief Financial Officer, Bangladesh
Dhaka, 24 February 2022	

Statement of Liquidity (Assets and Liabilities Maturity Analysis) As at 31 December 2021							Annexure - A
Particulars	Maturity within 1 month	Maturity within 1 to 3 months	Maturity within 3 to 12 months	Maturity within 1 to 5 years	Maturity over 5 years	Total	
	BDT	BDT	BDT	BDT	BDT	BDT	
Assets							
Cash in hand*	22,702,999,733	-	-	-	3,493,771,853	26,196,771,586	
Balance with other banks and financial institutions (note 6.2)	5,411,626,572	-	-	-	-	5,411,626,572	
Money at call on short notice	14,508,089,000	-	-	-	-	14,508,089,000	
Investment (note 8.1)	8,551,367,371	17,817,321,791	36,606,236,843	3,007,810,972	6,000,000	65,989,736,977	
Loans and advances (note 9.1)	49,059,924,196	64,074,093,209	84,716,033,253	30,765,898,104	11,259,696,786	239,977,946,548	
Fixed assets	-	479,471	51,156,620	628,452,686	14,137,189	692,225,956	
Other assets	390,165,584	222,456,922	638,399,361	2,462,175,753	89,767,942	3,802,965,562	
Non-banking assets	-	-	-	-	-	-	
Total assets	100,624,172,456	82,114,351,393	122,013,886,077	36,862,338,515	14,863,373,770	356,478,122,211	
Liabilities							
Borrowings from other banks and financial institutions (note 12.4)	13,411,730,092	4,366,998,891	33,967,095,084	93,002,824,409	-	144,768,648,476	
Deposits and other accounts (note 13.1)	28,469,956,207	25,686,067,606	32,097,104,938	70,029,698,475	-	156,282,827,226	
Other liabilities (including capital/shareholders' equity)	1,460,086,930	849,333,279	1,420,213,685	48,529,236,618	3,167,775,997	55,426,646,509	
Total liabilities	43,341,773,229	30,902,399,776	67,504,413,707	211,561,759,502	3,167,775,997	356,478,122,211	
Net liquidity difference	57,282,399,227	51,211,951,617	54,509,472,370	(174,699,420,987)	11,695,597,773	-	

* Balance over 5 years represents foreign currency deposits with Bangladesh Bank held under lien as capital.

Balance with Other Banks and Financial Institutions - Outside Bangladesh (Note -6) As at 31 December 2021							Annexure - B
Bank Name	Currency name	2021		2020		Local currency	
		Foreign currency	Rate	Foreign currency	Rate		
HSBC Hong Kong	HKD	1,452,994	10.9419	15,898,576	2,456,994	10.8933	26,764,830
HSBC Hong Kong Global ATM settlement account	HKD	1,878,396	10.9419	20,553,311	984,220	10.8933	10,721,429
HSBC Hong Kong Settlement account with	CNY	814,158	13.3890	10,900,792	2,791,723	12.9402	36,125,519
HSBC Hong Kong	USD	9,515,540	85.3417	812,072,350	3,752,172	84.4505	316,872,837
HSBC Japan	JPY	64,040,666	0.7411	47,460,721	76,658,035	0.8189	62,776,333
HSBC Singapore	SGD	18,812	63.0712	1,186,484	29,524	63.7458	1,882,035
HSBC India	USD	3,805,542	85.3417	324,771,391	16,595,264	84.4505	1,401,478,355
Credit Suisse AG Switzerland	CHF	2,697,466	93.1983	251,399,257	2,153,256	95.4567	205,542,644
HSBC Bank PLC UK	GBP	1,707,551	115.0833	196,510,627	1,619,943	114.9287	186,177,889
HSBC Bank USA	USD	20,850,386	85.3417	1,779,407,361	28,768,824	84.4505	2,429,541,611
SCB Pakistan	USD	3,731,805	85.3417	318,478,594	3,731,805	84.4505	315,152,799
HSBC Sri Lanka	USD	198,56	85.3417	16,945,688	1,412,062	84.4505	119,249,358
HSBC Bank Australia TT account	AUD	25,998	61.9922	1,605,462	41,056	64.7229	2,657,230
HSBC Bank Australia DD account	AUD	447	61.9922	27,687	447	64.7229	28,907
HSBC Bank Canada	CAD	49,899	66.7619	3,331,379	18,322	66.0957	1,210,982
HSBC France	EUR	14,450,673	96.5897	1,395,786,667	2,482,53	103.6461	257,304,708
Danske Bank Denmark	DKK	1,964	12.9888	25,511	3,518	13.9318	49,013
HSBC India	EUR	693,503	96.5897	66,985,265	693,503	103.6461	71,878,873
HSBC Dubai	AED	8,612	23.2342	200,097	7,011	22.9910	161,183
Total				5,263,547,210			5,445,576,535

Financial Highlights (Onshore) As at 31 December 2021					Annexure - C
					(Figures in BDT)
Sl No	Particulars	Currency/percentage	2021	2020	
1	Fund deposited with Bangladesh Bank as capital	BDT	3,167,775,997	3,135,747,494	
2	Total assets	BDT	208,467,964,696	201,096,918,395	
3	Total deposits	BDT	151,349,824,567	144,797,637,036	
4	Total loans and advances	BDT	93,101,382,111	107,406,116,524	
5	Total contingent liabilities	BDT	199,091,110,838	157,310,172,395	
6	Advances/deposits ratio	%	59.85	72.40	
7	Classified advances as a percentage of total advances	%	1.71	1.34	
8	Profit after tax and provisions	BDT	4,336,864,725	3,922,784,690	
9	Amount of classified loans	BDT	1,588,115,815	1,443,438,302	
10	Amount of provision against classified loans	BDT	660,283,335	580,647,987	
11	Provision surplus	BDT	-	-	
12	Interest expenses	BDT	1,853,325,747	3,409,369,027	
13	Interest bearing assets	BDT	187,950,194,769	183,473,286,893	
14	Non interest bearing assets	BDT	20,517,769,927	17,623,631,502	
15	Income from investment	BDT	2,000,908,677	2,047,047,345	
16	Return on Investment (ROI)*	%	3.03	4.43	
17	Return on Average Investment (ROAI)*	%	3.57	5.05	
18	Return on Assets (ROA)*	%	2.08	1.95	
19	Return on Average Assets (ROAA)*	%	2.12	2.08	
20	Return on Equity (ROE)*	%	11.47	10.77	
21	Return on Average Equity (ROAE)*	%	11.68	11.67	

Financial Highlights (Offshore) As at 31 December 2021					(Figures in BDT)
Sl No	Particulars	Currency**/percentage	2021	2020	
1	Total assets	BDT	164,742,456,789	132,326,740,185	
2	Total deposits	BDT	4,933,002,659	4,374,650,660	
3	Total loans and advances	BDT	146,776,264,437	129,769,647,789	
4	Total contingent liabilities	BDT	11,851,731,154	19,028,679,200	
5	Classified Advance	BDT	2,860,245,954	-	
6	Classified advances as a percentage of total advances	%	1.95	-	
7	Profit before tax	BDT	478,725,971	2,470,465,516	
8	Profit after tax and provisions	BDT	(553,185,426)	1,482,558,797	
9	Interest expenses	BDT	321,491,140	1,431,669,259	
10	Interest bearing assets	BDT	164,704,201,604	130,006,358,597	
11	Non interest bearing assets	BDT	38,255,184	2,320,381,588	
12	Return on Assets (ROA)*	%	(0.34)	1.12	

* Calculated on the basis of year end investments, assets and equity balances respectively.

** Functional Currency of OBU is USD. Key Highlights are presented in equivalent BDT.

Key Financial Highlights As at 31 December 2021				(Figures in BDT)
Sl No	Particulars	Onshore	Offshore	Solo
1	Total assets	208,467,964,696	164,742,456,789	356,478,122,211
2	Total deposits	151,349,824,567	4,933,002,659	156,282,827,226
3	Total loans and advances	93,101,382,111	146,776,264,437	239,877,646,548
4	Total contingent liabilities	199,091,110,838	11,851,731,154	210,942,841,993
5	Net interest income	4,091,416,391	3,577,985,239	7,669,401,631
6	Non interest income	6,024,696,794	598,077,451	6,622,774,245
7	Total operating income	10,116,113,185	4,176,062,690	14,292,175,876
8	Profit before tax and provisions	6,249,267,108	2,579,778,491	8,829,045,599
9	Profit after tax and provisions	4,336,864,725	553,185,426)	3,783,679,299
10	Total capital including retained earnings	-	-	42,882,226,412
11	Surplus capital (above 12.5%)	-	-	16,300,562,928
12	Capital adequacy ratio (%)	-	-	20.17
13	Classified advances as a percentage of total advances (%)	1.71	1.95	1.85



FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

Bangladesh Branches

	As per Bangladesh Bank statement	As per Bank's general ledger		Reconciling difference
	EUR	EUR	BDT	EUR
EUR clearing account	25,439,089	25,439,089	2,457,154,863	-
Bank credited but Bangladesh Bank had not debited				-
Bank debited but Bangladesh Bank had not credited				-
Bangladesh Bank credited but Bank had not debited				-
Bangladesh Bank debited but the Bank had not credited				-

Total (BDT) 14,624,006,210

Disclosures on risk based capital under Pillar - III of Basel III for the year ended 31 December 2021

1 Disclosure policy

The following detailed qualitative and quantitative disclosures are provided in accordance with Bangladesh Bank rules and Basel III capital regulation under BRPD Circular no. 18 (21 December 2014). The purpose of these requirements is to complement the capital adequacy requirements and the Pillar III – supervisory review process. These disclosures are intended for market participants to assess key information about the Bank's exposure to various risks and to provide a consistent and understandable disclosure framework as per regulatory requirement. The Bank complies with the disclosure requirements set out by the Bangladesh Bank and International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) as approved by the Institute of Chartered Accountants of Bangladesh (ICAB).

The major highlights of the Bangladesh Bank regulations are:

- To maintain Capital Adequacy Ratio (CAR) at a minimum of 12.50% (including capital conservation buffer @2.50%) of Risk Weighted Assets (RWA);
- To adopt the standardised approach for credit risk for implementing Basel III, using national discretion for:
 - adopting the credit rating agencies as External Credit Assessment Institutions (ECAI) for claims on sovereigns and banks;
 - adopting simple/comprehensive approach for Credit Risk Mitigation (CRM).
- all unrated corporate exposures are risk weighted by assigning a risk weighting of 125%.
- To adopt the standardised approach for market risk and basic indicator approach for operational risk.
- Capital adequacy returns must be submitted to Bangladesh Bank on a quarterly basis.

2 Scope of application

The Bank has no subsidiaries or significant investments and Basel III is applied at Bank level only.

3 Capital structure

Quantitative disclosures:

HSBC Bangladesh's capital structure consists of Tier I and Tier II capital which is aligned with regulatory capital structure. Tier I capital is further categorised as Common Equity Tier 1 (CET1) and Additional Tier 1 capital. The computation of the amount of Common Equity Tier I, Additional Tier I and Tier II capital shall be subject to the following conditions:

- The Bank has to maintain at least 4.5% of total Risk Weighted Assets (RWA) as Common Equity Tier I capital.
- Tier I capital will be at least 6% of the total RWA.
- Minimum Capital to Risk-weighted Asset Ratio (CRAR) will be 10% of the total RWA.
- Additional Tier I capital can be maximum up to 1.5% of the total RWA or 33.33% of CET 1, whichever is higher.
- Tier II capital can be maximum up to 4% of the total RWA or 88.89% of CET1, whichever is higher.
- In addition to minimum CRAR, Capital Conservation Buffer (CCB) of 2.50% of the total RWA has to be maintained from 2020 and onwards.

Tier I capital of the Bank includes funds deposited with Bangladesh Bank, actuarial gain/(loss) and retained earnings. Tier I capital is also called 'Core Capital' of the Bank. According to BRPD letter ref no. BRPD (BFIS)661/14B(P)/2015-18014 dated 24 December 2015, 5% of deferred tax recognised on specific provision shall be allowable as CET 1 capital whilst all other deferred tax assets created on other items shall be deducted from the retained earnings when calculating the capital adequacy ratio.

Tier II capital consists of general provision. According to BRPD circular no. 05 (31 May 2016) the full general provision maintained against unclassified loans and advances (except Fast Track Electricity Project LC) will be considered as Tier II capital.

Quantitative disclosures:

The details of capital structure are provided as under:

	2021 BDT	2020 BDT
Common Equity Tier I		
Fund deposited with Bangladesh Bank	3,167,775,997	3,135,747,494
Retained earnings	40,201,601,175	38,929,347,049
Actuarial gain/(loss)	(530,468,930)	(433,284,241)
Less: Regulatory adjustment for intangible assets as per the Bangladesh Bank guideline	(4,449,291)	-
Less: Regulatory adjustment for deferred tax assets as per the Bangladesh Bank guideline	(1,581,480,055)	(686,210,828)
Less: Regulatory adjustment due to WPPF	(2,295,163,640)	-
	38,957,815,257	40,945,599,474
Additional Tier I	-	-
Tier II	-	-
Total Tier I	38,957,815,257	40,945,599,474
Tier II		
General provision	3,924,411,155	3,559,660,068
	3,924,411,155	3,559,660,068
Total capital	42,882,226,412	44,505,259,542

4 Capital adequacy

Quantitative disclosures:

The Bank has adopted the Standardised Approach for computation of the capital charge for credit risk and market risk, and the Basic Indicator Approach for operational risk. Assessment of capital adequacy is carried out in conjunction with the capital adequacy reporting to the Bangladesh Bank.

The Bank has a capital adequacy ratio of 20.17% as against the minimum regulatory requirement of 12.50% including capital conservation buffer. Tier I capital adequacy ratio is 18.32% against the minimum regulatory requirement of 6%. The Bank's policy is to manage and maintain its capital with the objective of maintaining a strong capital ratio. The Bank maintains capital levels that are sufficient to absorb all material risks. The Bank also ensures that the capital levels comply with all regulatory requirements, satisfy external rating agencies and other stakeholders including depositors. The whole objective of the capital management process in the Bank is to ensure that the Bank remains adequately capitalised at all times.

The Bank has in place a capital adequacy framework by which the Bank's annual budget projections and the capital required to achieve the business objectives are linked in a cohesive way. Capital requirements are assessed for credit, market and operational risks. The Bank's capital adequacy ratio is periodically assessed and reviewed by the ALCO and reported to head office. The composition of capital in terms of Tier I and II are also analysed to ensure capital stability and to reduce volatility in the capital structure. The Bank has a profit remittance policy to ensure that the Bank has enough capital to comply with the regulatory requirement. The Bank's capital plan also ensures that adequate levels of capital are held considering the planned organic growth of the business.

Quantitative disclosures:

Position of various risk weighted assets are presented below:

	2021 BDT	2020 BDT
Risk Weighted Assets		
On balance sheet items	151,288,126,145	147,845,592,995
Off balance sheet items	35,012,143,790	21,618,389,247
Total credit risk	186,300,269,935	169,463,982,242
Market risk	4,178,433,137	753,192,637
Operational risk	22,174,604,796	21,555,330,923
Total risk weighted assets	212,653,307,867	191,772,505,802

Detail of capital adequacy

	2021 BDT	2020 BDT
Minimum Capital Requirement (MCR-10%)		
Capital requirement for credit risk	18,630,026,993	16,946,398,224
Capital requirement for market risk	417,843,314	75,319,264
Capital requirement for operational risk	2,217,460,480	2,155,533,092
Total Minimum Capital required	21,265,330,787	19,177,250,580
Surplus Maintenance	21,616,895,625	25,328,008,962

Minimum Capital Requirement plus Capital Conservation Buffer (12.5%)

Capital requirement for credit risk	23,287,533,742	21,182,997,780
Capital requirement for market risk	522,304,142	94,149,080
Capital requirement for operational risk	2,771,825,599	2,694,416,365
Total Minimum Capital required plus Capital Conservation Buffer	26,581,663,483	23,971,563,225

Surplus Maintenance

	16,300,562,928	20,533,696,317
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Common Equity Tier I capital

	38,957,815,257	40,945,599,474
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Total Tier II capital

	3,924,411,155	3,559,660,068
Total regulatory capital	42,882,226,412	44,505,259,542

% of Capital adequacy required

Common Equity Tier I	7.000%	7.000%
Tier I	6.000%	6.000%
Minimum Capital to Risk Weighted Asset Ratio (CRAR)/MCR	10.000%	10.000%
Minimum CRAR + Capital Conservation Buffer	12.500%	12.500%

% of Capital adequacy maintained

Common Equity Tier I	18.32%	21.35%
Tier I	18.32%	21.35%
Tier II	1.85%	1.86%
Capital Conservation Buffer	10.17%	13.21%
Total CRAR	20.17%	23.21%

5 Credit Risk

Quantitative disclosures:

Credit risk is the risk of financial loss if a customer or counterparty fails to meet a payment obligation under a contract. It arises principally from direct lending, trade finance and leasing business, but also from off balance sheet products such as guarantees and credit derivatives, and from the holdings of debt securities. HSBC Bangladesh has standards, policies and procedures dedicated to controlling and monitoring risk from all such activities. Among the risks the Bank engages in, credit risk generates the largest regulatory capital requirement.

The aims of credit risk management, underpinning sustainably profitable business, are principally

- to maintain a strong culture of responsible lending, supported by a robust risk policy and control framework;
- to both partner and challenge business originators effectively in defining and implementing risk appetite, and its re-evaluation under actual and
- to ensure independent, expert scrutiny and approval of credit risks, their costs and their mitigation.

HSBC has historically been maintaining a conservative, yet constructive and competitive credit risk culture. This has served the Group well, through successive economic cycles and remains valid today. This culture is determined and underpinned by the disciplined credit risk control environment which the Group has put in place to govern and manage credit risk, and which is embodied in the formal policies and procedures adopted by HSBC Bangladesh in line with Bangladesh Bank and other local regulations. Formal policies and procedures cover all areas of credit lending and monitoring processes including, but not limited to:

- The Group Credit Risk Policy Framework
- Risk appetite and evaluation of facilities
- Key lending constraints and higher-risk sectors
- Risk rating systems
- Facility structures
- Lending to banks, non-banks and sovereigns
- Personal lending
- Corporate and commercial lending
- Portfolio management and stress testing
- Monitoring, control and the management of problem exposures
- Impairments and allowances

At the heart of these processes is a robust framework of accountability. Business segments are responsible for both the profitability and growth of their loan portfolios as well as the losses that may arise within them. Credit Risk Management function of the Bank is responsible for credit risk assessment and approval process. In addition, as part of overall risk governance framework, the Bank has in place a Risk Management Meeting (RMM) forum chaired by the Chief Risk Officer in presence of the Chief Executive Officer and all Business and Function Heads within the Bank.

The Bank also has relevant Departments to look after the loan review mechanism and also to ensure credit compliance with the post-sanction processes/ procedures laid down by the Bank from time to time. This involves taking up independent account-specific reviews of individual credit exposures and also monitoring various credit concentration limits as per the lending guideline. In line with Bangladesh Bank's guideline, the Bank has credit risk grading system in place for analysing the risk associated with credit.

The standardised approach is applied for risk weighting of exposure as per directive of Bangladesh Bank. It requires banks to use credit rating assigned by External Credit Assessment Institutions (ECAIs), where available, to determine the risk weightings applied to rated counterparties.

The Bank has been maintaining credit risk mitigation under the standardised approach. It is HSBC's policy to establish that loans are within the customer's capacity to repay which is also supported by collaterals as an important mitigation of credit risk wherever necessary. The Bank has guidelines on the acceptability of different types of collateral or credit risk mitigation, and determines suitable valuation parameters. Such parameters are being reviewed regularly and supported by empirical evidence.

Past dues and impaired exposures are defined in accordance with the relevant Bangladesh Bank regulations. Specific and general provisions are calculated periodically in accordance with Bangladesh Bank regulations.

Special attention is given to problem loans and appropriate action is initiated to protect the Bank's position on a timely basis and to ensure that loan impairment methodologies result in losses being recognised when they are incurred. The objective of credit risk management is to minimise the probable losses and maintaining credit risk exposure within acceptable parameters.

Specific provision

The Bank follows Bangladesh Bank guidelines regarding loan classifications, provisioning and any other issues related to Non Performing Loan (NPL). The Bank's internal credit guidelines also give direction on the management of NPLs, the procedure for reviewing loan provisioning, debt write off, facility grading, reporting requirements and interest recognition. Thus, while dealing with NPLs, the Bank's decision is always compliant with local rules and regulations as well as Group guidelines.

Throughout the year the Bank reviews loans and advances to assess whether objective evidence has arisen of impairment of a loan or portfolio that warrants a change in the classification of loans and advances which may result in a change in the provision required in accordance with As per BRPD Circular Letter No.03 dated 31 January 2021, BRPD Circular Letter No.05 dated 24 March 2021, BRPD Circular Letter No.13 dated 26 June 2021, BRPD Circular Letter No.19 dated 26 August 2021, BRPD Circular Letter No.45 dated 04 October 2021, BRPD Circular Letter No.50 dated 14 December 2021, BRPD Circular Letter No. 52 dated 29 December 2021, BRPD (P-1)/661/13/2021-12262 dated 29 December 2021, BRPD Circular Letter No. 53 dated 30 December 2021, BRPD circular No. 56 (10 December 2020), BRPD circular No. 52 (20 October 2020), BRPD circular No. 17 (28 September 2020), BRPD Circular No. 16 (21 July 2020), BRPD circular No. 13 (15 June 2020), BRPD circular No. 04 (19 March 2020), BRPD circular No. 07 (19 March 2020), BRPD circular No. 24 (17 November 2019), BRPD circular No. 06 (19 May 2019), BRPD circular No. 04 (16 May 2019), BRPD circular No. 03 (21 April 2019), BRPD circular No. 01

(20 February 2018), BRPD circular No.15 (27 September 2017), BRPD circular No.16 (18 November 2014), BRPD circular No.14 (23 September 2012), BRPD circular No. 19 (27 December 2012) and BRPD circular No. 05 (29 May 2013) a general provision at 0.25% to 2% under different categories of unclassified loans (good/standard loans) as well as a special general provision for COVID-19 has to be maintained regardless of objective evidence of impairment. Also specific provision for sub-standard loans, doubtful loans and bad losses has to be provided at 5%, 20%, 50% and 100% respectively for loans and advances depending on time past due. Again as per BRPD circular no. 10 dated 18 September 2007 and BRPD circular no. 14 dated 23 September 2012, a general provision at 1% is required to be provided for all off-balance sheet exposures. Such provision policies are not specifically in line with those prescribed by IFRS 9. The guidance in the circulars follows a formulaic approach whereby specified rates are applied to the various categories of loans as defined in the circulars. The provisioning rates are as follows:

Specific provision on loans and advances

Specific provision on substandard loans and advances/investments other than agricultural loans	20%
Specific provision on doubtful loans and advances/investment other than agricultural loans	50%
Specific provision on substandard and doubtful agricultural loans	5%
Specific provision on bad/loss and advances/investments	100%

BRPD circular no.14 (23 September 2012) as amended by BRPD circular no. 19 (27 December 2012) also provides scope for further provisioning based on qualitative judgments. In these circumstances, impairment losses are calculated on individual loans considered individually significant based on which specific provisions are raised. If the specific provisions assessed under the qualitative methodology are higher than the specific provisions assessed under the formulaic approach above, the higher of the two is recognised in liabilities under "Provisions for loans and advances" with any movement in the provision charged/released in the profit and loss account.

Quantitative disclosures:

Gross Credit Risk Exposure	2021 BDT	2020 BDT
Claims on sovereigns and central banks	26,196,771,585	36,706,487,911
Claims on banks	32,624,118,325	11,192,997,458
Investments	40,359,775,554	39,279,285,462
Claims on Public Sector Entities (other than Government) in Bangladesh	7,053,494,880	6,904,265,136
Claims on corporate	194,547,949,720	204,906,725,254
Claims on SME	4,012,957,914	4,471,066,639
Claims Under Credit Risk Mitigation	13,606,100,838	10,848,228,849
Claims on consumer	1,028,917,888	1,004,263,320
Claims fully secured by residential property	950,422,258	1,245,292,210
Past due Claims	2,511,530,187	891,354,268
Fixed assets	692,225,966	322,474,322
All other assets	4,614,652,657	3,656,474,604
Total on-balance sheet items	328,198,917,772	321,428,915,433
Off-balance sheet items (after considering the credit conversion factor)	44,562,180,569	32,712,834,470
Total	372,761,098,341	354,141,749,903

Geographical distribution of credit exposures

	Dhaka	Chattogram	Total BDT
2021			
Claims on sovereigns and central banks	24,883,788,546	1,312,983,039	26,196,771,585
Claims on banks	32,624,118,325	-	32,624,118,325
Investments	40,359,435,554	340,000	40,359,775,554
Claims on Public Sector Entities (other than Government) in Bangladesh	7,053,494,880	-	7,053,494,880
Claims on corporate	191,307,370,986	3,240,578,734	194,547,949,720
Claims on SME	4,012,957,914	-	4,012,957,914
Claims Under Credit Risk Mitigation	13,493,412,731	112,688,107	13,606,100,838
Claims on consumer	514,445,431	514,472,457	1,028,917,888
Claims fully secured by residential property	750,001,241	200,421,017	950,422,258
Past due Claims	2,460,032,240	51,497,947	2,511,530,187
Fixed assets	684,855,144	7,370,822	692,225,966
All other assets	4,583,843,701	30,808,956	4,614,652,657
Total on-balance sheet items	322,727,756,693	5,471,161,079	328,198,917,772
Off-balance sheet items (after considering the credit conversion factor)	34,117,829,157	10,444,351,412	44,562,180,569
Total	356,845,585,850	15,915,512,491	372,761,098,341

	Dhaka	Chattogram	Total BDT
2020			
Claims on sovereigns and central banks	34,492,107,428	2,214,380,483	36,706,487,911
Claims on banks	11,192,997,458	-	11,192,997,458
Investments	39,278,360,462	925,000	39,279,285,462
Claims on Public Sector Entities (other than Government) in Bangladesh	6,904,265,136	-	6,904,265,136
Claims on corporate	177,301,090,260	27,605,634,994	204,906,725,254
Claims on SME	4,471,066,639	-	4,471,066,639
Claims Under Credit Risk Mitigation	10,587,465,479	260,763,370	10,848,228,849
Claims on consumer	780,970,804	223,292,516	1,004,263,320
Claims fully secured by residential property	997,627,756	247,664,454	1,245,292,210
Past due Claims	839,072,301	52,281,967	891,354,268
Fixed assets	284,254,926	382,199,396	322,474,322
All other assets	3,580,230,695	76,243,909	3,656,474,604
Total on-balance sheet items	290,709,509,344	30,719,406,089	321,428,915,433
Off-balance sheet items	30,950,306,694	1,762,527,776	32,712,834,470
Total	321,659,816,038	32,481,933,865	354,141,749,903

Industry distribution of credit exposures

2021	SME	POWER AND ENERGY	NON GOVERNMENT ORGANIZATION	CHEMICAL & PHARMACEUTICALS	NON-METALLIC MINERAL PRODUCTS	AGRICULTURE & AGRO PROCESSING
Claims on sovereigns and central banks	-	-	-	-	-	-
Claims on banks	-	-	-	-	-	-
Investments	-	-	-	-	-	-
Claims on Public Sector Entities (other than Government) in Bangladesh	-	-	-	-	-	-
Claims on corporate	12,530,227,723	1,791,370,528	12,441,366,578	20,993,074,954	33,942,703,749	
Claims on SME	4,012,957,914	-	-	-	-	
Claims Under Credit Risk Mitigation	1,850,938,550	685,626,750	1,453,915,004	-	233,829,005	
Claims on consumer	-	-	-	-	-	
Claims fully secured by residential property	-	-	-	-	-	
Past due Claims	-	-	-	-	532,509,587	717,059,766
Fixed assets	-	-	-	-	-	
All other assets	-	-	-	-	-	
Total Assets	4,012,957,914	14,381,166,273	2,476,997,278	13,895,281,582	21,525,584,541	34,893,592,520
Off-balance sheet items	-	-	-	-	-	-

2021	TEXTILE	TRADE	STEEL AND META	Banks & NBFI	READYMADE GARMENTS	Others	Total
Claims on sovereigns and central banks	-	-	-	-	-	26,196,771,585	26,196,771,585
Claims on banks	-	-	-	32,624,118,325	-	-	32,624,118,325
Investments	-	-	-	-	-	40,359,775,554	40,359,775,554
Claims on Public Sector Entities (other than Government) in Bangladesh	-	-	-	-	-	7,053,494,880	7,053,494,880
Claims on corporate	33,800,260,449	600,602,823	10,536,484,692	-	48,738,026,658	19,173,831,567	194,547,949,720
Claims on SME	-	-	-	-	-	-	4,012,957,914
Claims Under Credit	-	-	-	-	-	-	-
Risk Mitigation	3,338,316,312	19,692,760	-	-	2,947,250,704	3,076,531,753	13,606,100,838
Claims on consumer	-	-	-	-	-	1,028,917,888	1,028,917,888
Claims fully secured by residential property	-	-	-	-	-	950,422,258	950,422,258
Past due Claims	-	86,920,691	-	-	-	1,175,040,143	2,511,530,187
Fixed assets	-	-	-	-	-	692,225,966	692,225,966
All other assets	-	-	-	-	-	4,614,652,657	4,614,652,657
Total Assets	37,836,576,760	707,216,274	10,536,484,692	32,624,118,325	51,685,277,362	104,321,664,251	328,198,917,772
Off-balance sheet items	-	-	-	1,383,962,248	-	43,178,198,321	44,562,160,569



FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

Bangladesh Branches

Industry distribution of credit exposures

2020	SME	POWER AND ENERGY	NON GOVERNMENT ORGANIZATION	CHEMICAL & PHARMACEUTICALS	NON-METALLIC MINERAL PRODUCTS	AGRICULTURE & AGRO PROCESSING
Claims on sovereigns and central banks	-	-	-	-	-	-
Claims on banks	-	-	-	-	-	-
Investments	-	-	-	-	-	-
Claims on Public Sector Entities (other than Government) in Bangladesh	-	-	-	-	-	-
Claims on corporate	-	7,935,091,043	3,301,288,775	9,769,818,241	21,561,991,401	46,584,387,248
Claims on SME	4,471,066,639	-	-	-	-	-
Claims Under Credit Risk Mitigation	-	1,532,194,162	487,611,302	1,845,470,293	432,497,741	256,328,324
Claims on consumer	-	-	-	-	-	-
Claims fully secured by residential property	-	-	-	-	-	-
Past due Claims	-	-	-	-	496,743,611	-
Fixed assets	-	-	-	-	-	-
All other assets	-	-	-	-	-	-
Total Assets	4,471,066,639	9,467,285,205	3,788,900,077	11,615,288,534	22,491,232,754	46,840,715,572
Off-balance sheet items	-	-	-	-	-	-

2020	TEXTILE	TRADE	STEEL AND META	Banks & NBF	READYMADE GARMENTS	Others	Total
Claims on sovereigns and central banks	-	-	-	-	-	-	36,706,487,911
Claims on banks	-	-	-	11,192,997,458	-	-	11,192,997,458
Investments	-	-	-	-	-	-	39,279,285,462
Claims on Public Sector Entities (other than Government) in Bangladesh	-	-	-	-	-	-	6,904,265,136
Claims on corporate	33,553,410,406	522,893,156	11,353,076,155	-	38,767,911,612	-	104,682,228,849
Claims on SME	-	-	-	-	-	-	4,471,066,639
Claims Under Credit Risk Mitigation	2,339,296,352	136,981,610	-	-	1,069,289,893	-	3,545,566,855
Claims on consumer	-	-	-	-	-	-	1,004,263,320
Claims fully secured by residential property	-	-	-	-	-	-	1,245,292,210
Past due Claims	-	64,894,127	-	-	-	-	64,894,127
Fixed assets	-	-	-	-	-	-	322,474,322
All other assets	-	-	-	-	-	-	3,656,474,604
Total Assets	35,892,706,758	724,568,893	11,353,076,155	11,192,997,458	38,837,201,495	-	123,753,875,895
Off-balance sheet items	-	-	-	-	-	-	32,712,834,470

Maturity breakdown of credit exposures

2021	Within 1 month	Within 1 to 3 months	Within 3 to 12 months	Within 1 to 5 years	Over 5 years	Total BDT
Claims on sovereigns and central banks	22,739,484,234	-	-	-	3,457,287,351	26,196,771,585
Claims on banks	22,128,215,707	5,400,093,166	5,095,809,452	-	-	32,624,118,325
Investments	4,953,471,391	4,471,093,406	27,927,399,785	3,007,810,972	-	40,359,775,554
Claims on Public Sector Entities (other than Government) in Bangladesh	-	3,168,160	3,600,846	208,107,321	6,838,618,553	7,053,494,880
Claims on corporate	32,637,704,522	59,802,004,539	75,306,258,774	24,938,736,785	1,863,245,100	194,547,949,720
Claims on SME	3,280,330,733	72,036,000	660,591,181	-	-	4,012,957,914
Claims Under Credit Risk Mitigation	2,821,775,916	2,969,524,110	3,582,068,902	3,280,171,790	952,560,120	13,606,100,838
Claims on consumer	4,040,579	11,725,470	254,153,481	738,703,180	20,295,178	1,028,917,888
Claims fully secured by residential property	12,480,765	2,268,411	7,500,294	144,849,029	783,323,759	950,422,258
Past due Claims	2,511,530,187	-	-	-	-	2,511,530,187
Fixed assets	-	479,471	51,156,620	626,452,696	14,137,189	692,225,966
All other assets	390,165,582	222,456,922	638,399,361	2,462,175,753	901,455,039	4,614,652,657
Total on-balance sheet items	91,479,199,616	72,954,849,655	113,526,938,696	35,407,007,516	14,830,922,289	328,196,917,772
Off-balance sheet items	8,837,648,427	13,480,251,177	10,331,891,278	11,912,389,687	-	44,562,180,569
Total	100,316,848,043	86,435,100,832	123,858,829,974	47,319,397,203	14,830,922,289	372,761,098,341

2020	Within 1 month	Within 1 to 3 months	Within 3 to 12 months	Within 1 to 5 years	Over 5 years	Total BDT
Claims on sovereigns and central banks	33,249,200,560	-	-	-	3,457,287,351	36,706,487,911
Claims on banks	6,253,834,976	1,137,535,437	3,801,627,045	-	-	11,192,997,458
Investments	3,747,054,888	11,620,372,128	23,411,661,456	500,196,990	-	39,279,285,462
Claims on Public Sector Entities (other than Government) in Bangladesh	-	2,625,593	11,574,840	280,581,805	6,608,931,653	6,904,265,136
Claims on corporate	30,103,448,194	60,329,575,959	81,778,310,450	29,597,222,024	3,098,170,627	204,906,725,254
Claims on SME	2,080,442,778	480,240,000	1,910,383,861	-	-	4,471,066,639
Claims Under Credit Risk Mitigation	2,708,690,810	3,259,432,045	2,812,610,609	2,058,716,780	8,778,605	10,848,228,849
Claims on consumer	4,040,579	9,818,543	77,882,708	912,521,490	-	1,004,263,320
Claims fully secured by residential property	21,278,717	2,687,772	21,355,116	148,797,782	1,051,172,823	1,245,292,210
Past due Claims	891,354,268	-	-	-	-	891,354,268
Fixed assets	9,350	1,087,441	18,541,030	233,896,263	68,940,238	322,474,322
All other assets	1,198,390,851	263,259,305	362,467,948	1,820,605,745	11,750,795	3,656,474,604
Total on-balance sheet items	80,258,295,216	77,106,634,223	114,206,415,063	35,552,538,879	14,305,032,062	321,428,915,433
Off-balance sheet items	6,563,502,648	10,567,825,108	14,062,414,061	1,519,092,653	-	32,712,834,470
Total	86,821,797,864	87,674,459,331	128,268,829,124	37,071,631,532	14,305,032,062	354,141,749,903

Gross Non Performing Assets (NPAs)	2021 BDT	2020 BDT
Non Performing Assets (NPAs) to outstanding loans and advances	4,448,361,769	1,443,438,302

Movement of NPAs	2021 BDT	2020 BDT
Opening Balance	1,443,438,302	1,398,717,377
Written off during the period	(156,203,521)	(51,954,331)
Recoveries during the period	(17,965,789)	(24,319,041)
Addition during the period	3,179,092,777	120,994,297
Closing Balance	4,448,361,769	1,443,438,302

Movement of specific provision for NPAs	2021 BDT	2020 BDT
Opening Balance	580,647,987	764,289,121
Written off (net off recovery) during the period	(19,238,271)	(11,285,833)
Recoveries during the period	(24,482,223)	(173,235,946)
Provision made during the period	2,156,638,773	880,645
Closing Balance	2,693,566,266	580,647,987

6 Equities: Disclosures for banking book positions

The Bank does not hold trading position in equities.

7 Interest rate risk in the banking books

Discussed in the next section under Market risk.

8 Market risk

Quantitative disclosures:

Market risk is the risk to the Bank's earnings and capital due to changes in the market level of interest rates or prices of securities, foreign exchange and equities, as well as the volatilities of those changes.

The Bank uses the standardised (market risk) approach to calculate market risk for trading book exposures. The trading book consists of positions in financial instruments held with trading intent or in order to hedge other elements of the trading book. A capital charge will be applicable for financial instruments which are free from any restrictive covenants on tradability, or able to be hedged completely. Generally, investments in 'Held for Trading' portfolios are focal parts of the trading book.

Capital charge means an amount of regulatory capital which the Bank is required to hold for an exposure to a relevant risk which, if multiplied by 10, becomes the risk-weighted amount of that exposure for that risk.

The Bank has a comprehensive treasury risk policy which inter alia covers assessment, monitoring and management of all the above market risks. The Bank has defined various internal limits to monitor market risk and is computing the capital requirement as per the standardised approach of Basel III.

Details of various market risks faced by the Bank are set out below:

Interest rate exposures

The Bank adopts the maturity method in measuring interest rate risk in respect of securities in the trading book. The capital charge for the entire market risk exposure is computed under the standardised approach using the maturity method and in accordance with guidelines issued by Bangladesh Bank.

Interest rate exposures in the banking book

Interest rate risk is the risk where changes in market interest rates might adversely affect a bank's financial condition. The immediate impact of changes in interest rates is on the Net Interest Income (NII). A long term impact of changing interest rates is on the Bank's net worth since the economic value of a Bank's assets, liabilities and off-balance sheet

positions are affected by a variation in market interest rates. The responsibility of interest rate risk management rests with the Bank's Asset and Liability Management Committee (ALCO). The Bank periodically computes the interest rate risk on the banking book that arises due to re-pricing mismatches in interest rate sensitive assets and liabilities. For the purpose of monitoring such interest rate risk, the Bank has in place a system that tracks the re-pricing mismatches in interest bearing assets and liabilities. For computation of the interest rate mismatches the guidelines of Bangladesh Bank are followed.

Foreign exchange risk

Foreign exchange risk is defined as the risk that a bank may suffer losses as a result of adverse exchange rate movements during a period in which it has an open position, either spot or forward, or a combination of the two, in an individual foreign currency. The responsibility of management of foreign exchange risk rests with the Global Markets department of the Bank. The Bank has set up internal limits to monitor foreign exchange open positions. Foreign exchange risk is computed on the sum of net short positions or net long positions, whichever is higher of the foreign currency positions held by the Bank.

Equity position risk

The Bank does not hold a trading position in equities.

Quantitative disclosures:

The capital charge for various components of market risk is presented below:

The capital requirement for:	2021 BDT	2020 BDT
Interest rate risk	71,151,824	13,098,484
Equity position risk	-	-
Foreign exchange risk	346,691,489	62,220,780
Commodity risk	-	-
	417,843,313	75,319,264

9 Operational risk

Quantitative disclosures:

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or external events, including legal risk. It is inherent in every business organization and covers a wide spectrum of issues. The Group manages this risk through a control based environment in which processes are documented, authorization is independent and transactions are reconciled and monitored. This is supported by an independent programme of periodic reviews undertaken by internal audit and control testing and by monitoring external operational risk events, which ensure that the Group stays in line with industry best practice and takes account of lessons learned from publicized operational failures within the financial services industry.

The Group has codified its operational risk management process by issuing a high level standard, supplemented by more detailed formal guidance. This explains how the Group manages operational risk by identifying, assessing, monitoring, controlling and mitigating the risk, rectifying operational risk events, and implementing any additional procedures required for compliance with local regulatory requirements. The standard covers the following:

- Operational risk management responsibility and ownership is assigned to senior management within the business operation;
- Information systems are used to record the identification and assessment of operational risks and to generate appropriate, regular management reporting;
- Assessments are undertaken of the operational risks facing each business and the risks inherent in its processes, activities and products. Risk assessment incorporates a regular review of identified risks to monitor significant changes;
- Operational risk loss data is collected and reported to senior management. Aggregate operational risk losses are recorded and details of incidents above a materiality threshold are reported to the Group's Audit Committee; and
- Risk mitigation, including insurance, is considered where this is cost-effective.

The Group maintains and tests contingency facilities to support operations in the event of disasters. Additional reviews and tests are conducted in the event that any HSBC office is affected by a business disruption event, to incorporate lessons learned in the operational recovery from those circumstances. Plans have been prepared for the continued operation of the Group's business, with reduced staffing levels.

In line with the instructions from the Bangladesh Bank, the Bank uses the basic indicator approach to calculate its operational risk.

Quantitative disclosures:	2021 BDT	2020 BDT
Capital charge for operational risk	2,217,460,480	2,155,533,092

10 Liquidity Ratio

Quantitative disclosures:

Liquidity Risk is the risk that the bank does not have sufficient financial resources to meet its obligations as they fall due or will have to do so at excessive cost. The risk arises from mismatch in the timing of cash flows.

The objective of liquidity framework is to allow the Bank to withstand very severe stresses. It is designed to be adaptable to change the business modes, markets and regulators. The liquidity risk management framework requires:

- liquidity to be managed by Bank on stand-alone basis with no reliance on the Bangladesh Bank;
- to comply with all regulatory limits;
- to maintain positive stressed cash flow;
- monitoring the contingent funding commitments;
- monitoring the structural term mismatch between maturing assets and liabilities;
- maintenance of robust and practical liquidity contingency plan;
- maintain diverse sources of funding and adequate back up lines

Liquidity management of the Bank is centered on the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) based on BASEL III. The Bank has Asset Liability Management (ALM) desk to manage this risk with active monitoring and management from Global Markets Department.

The Bank has adopted Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) for liquidity risk management. LCR ensures that banks maintain enough high quality unencumbered liquid assets to meet its liquidity needs for 30 calendar day timeline whereas NSFR ensures availability of stable funding is greater than required funding over 1 year period.

Bank has Asset Liability Management Committee (ALCO) to monitor the liquidity risk on a monthly basis. Based on the detail recommendation from ALM desk, ALCO take appropriate action to manage the liquidity risk. To have more conservative approach towards liquidity risk measurement, the Bank has set internal LCR and NSFR limits which are more stringent and set higher than the regulatory limit of 100%. These ratios are regularly monitored at ALCO. Also Bank has internal risk control framework which outlines clear and consistent policies and principles for liquidity risk management.

Quantitative disclosures:	2021 BDT	2020 BDT
Liquidity coverage ratio (%)	126.53%	162.74%
Net Stable Funding Ratio (%)	149.59%	144.87%
Stock of High quality liquid assets	68,270,121,192	55,936,552,427
Total net cash outflows over the next 30 calendar days	53,956,580,163	34,372,751,846
Available amount of stable funding	301,112,518,017	281,517,858,586
Required amount of stable funding	201,297,082,484	194,325,036,287

11 Leverage Ratio

Quantitative disclosures:

Leverage ratio is the ratio of tier 1 capital to total on- and off-balance sheet exposures. The leverage ratio was introduced into the Basel III framework as a non-risk based backstop limit, to supplement risk-based capital requirements.

In order to avoid building-up excessive on- and off-balance sheet leverage in the banking system, a simple, transparent, non-risk based leverage ratio has been introduced by the Bangladesh Bank. The leverage ratio is calibrated to act as a credible supplementary measure to the risk based capital requirements. The leverage ratio is intended to achieve the following objectives:

- constrain the build-up of leverage in the banking sector which can damage the broader financial system and the economy; and
- reinforce the risk based requirements with an easy to understand and a non-risk based measure.

The Bank has calculated the regulatory leverage ratio as per the guideline of Basel III. The numerator, capital measure is calculated using the new definition of Tier I capital applicable from 01 January 2015. The denominator, exposure measure, is calculated on the basis of the Basel III leverage ratio framework as adopted by the Bangladesh Bank.

The exposure measure generally follows the accounting value, adjusted as follows:

- on-balance sheet, non derivative exposures are included in the exposure measure net of specific provision;
- physical or financial collateral is not considered to reduce on-balance sheet exposure;
- loans are not netted with deposits;
- off-balance sheet items are converted into credit exposure equivalents through the use of credit conversion factors (CCFs). Depending on the risk category of the exposure a CCF of 20%, 50% or 100% is applied. Commitments that are unconditionally cancellable at any time by the bank without prior notice, a CCF of 10% is applied;
- item deducted from Tier I capital such as deferred tax assets.

Quantitative disclosures:	2021 BDT	2020 BDT
Leverage ratio	9.50%	10.92%
On balance sheet exposure	349,903,462,959	327,614,532,789
Off balance sheet exposure	60,380,208,257	47,183,181,420
Total exposure	410,283,671,216	374,797,714,209

12 Remuneration

Quantitative disclosures:

The Bank has a Group specified remuneration policy which is designed to reward competitively the achievement of long-term sustainable performance and attract and motivate the very best people who are committed to maintaining a long-term career with HSBC and performing their role in the long-term interests of shareholders. The Group Remuneration Committee oversees the remuneration policy and are responsible for setting the overarching principles, parameters and governance framework of the remuneration policy. All members of the Committee are independent non-executive Directors of HSBC Holdings plc. The Committee periodically reviews the adequacy and effectiveness of the Group's remuneration policy and ensures that the policy meets the commercial requirement to remain competitive, is affordable, allows flexibility in response to prevailing circumstances and is consistent with effective risk management.

HSBC's reward strategy aims to reward success and be properly aligned with Bank's risk framework and related outcomes. In order to ensure alignment between remuneration and the Bank's business strategy, individual remuneration is determined through assessment of performance delivered against both annual and long term objectives summarised in performance scorecards as well as adherence to the HSBC Values of being 'open, connected and dependable' and acting with 'courageous integrity'. Altogether performance is judged, not only on what is achieved over the short and long term, but also on how it is achieved, as the later contributes to the sustainability of the organisation.

HSBC's reward package consists of the following key elements:

Fixed Pay:

The purpose of the fixed pay is to attract and retain employees by paying market competitive pay for the role, skills and experience required for the business. This includes salary, fixed pay allowance, and other cash allowances in accordance with local market practices. These payments are fixed and do not vary with performance.

Benefits:

HSBC provides benefits in accordance with local and international market practice. This includes but is not limited to the provision of pensions, medical insurance, life insurance and relocation allowances etc.

Annual Incentive:

HSBC provides annual incentive to drive and reward performance based on annual financial and non-financial measures consistent with the medium to long-term strategy, shareholder interests and adherence to HSBC values. Awards can be in the form of cash and shares. A portion of the annual incentive award is deferred and vests over a period of 3 years. The Bank pays the incentive in the form of cash.

Under the remuneration framework remuneration decisions are made based on a combination of business results, performance against objectives set out in performance scorecards, general individual performance of the role and adherence to the HSBC values, business principles, Group risk-related policies and procedures and Global Standards.

Key features of HSBC's remuneration framework include:

- assessment of performance with reference to clear and relevant objectives set within a performance scorecard framework;
- a focus on total compensation (fixed plus variable pay) with variable pay (namely annual incentive and the value of long term incentives) differentiated by performance and adherence to HSBC values;
- the use of discretion to assess the extent to which performance has been achieved; and
- deferral of a significant proportion of variable pay into HSBC shares to tie recipients to the future performance of the Group and align the relationship between risk and reward.

Within this framework, risk alignment of our remuneration structure is achieved through the following measures:

- Risk and compliance is a critical part of the assessment process in determining the performance of all employees, especially senior executives and identified staff and material risk takers. All employees are required to have risk measures in their performance scorecards, which ensure that their individual remuneration has been appropriately assessed with regard to risk.
- Adherence to HSBC values is a pre-requisite for any employee to be considered for variable pay. HSBC values are key to the running of a sound, sustainable bank. Employees have a separate HSBC values rating which directly influences their overall performance rating considered by the Committee for their variable pay determinations.
- For our most senior employees, the greater part of their reward is deferred and thereby subject to clawback, which allows the awards to be reduced or cancelled if warranted.
- The Group also carries out regular reviews to assess instances of non-compliance with risk procedures and expected behaviour. Instances of non-compliance are escalated for consideration in variable pay decisions, including adjustments and clawback of unvested awards granted in prior years. For identified staff and Material Risk Takers (MRTs), the Committee has oversight of such decisions.
- All variable pay awards made to identified staff and material risk takers for the performance year in which they have been identified as MRTs are also subject to the Group Claw back Policy in accordance with the requirements in the Prudential Regulation Authority's Remuneration Code.

Quantitative disclosures:	2021 BDT	2020 BDT
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