HSBC

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

Bangladesh Branches

Independent Auditor's Report to the Management of The Hongkong and Shanghai Banking Corporation Limited Bangladsh Branches

We have audited the accompanying financial statements of The Hongkong and Shanghai Banking Corporation Limited (HSBC), Bangladesh Branches (the "Bank") which comprise the balance sheet as at 31 December 2017 and profit and loss account, cash flow statement and statement of changes in equity for the year then ended, and a summary of significant accounting policies, other explanatory notes and annexures thereto.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements of the Bank that give a true and fair view in accordance with Bangladesh Financial Reporting Standards (BFRS) as explained in Note 3.1 and for such internal control as management determines is necessary to enable the preparation of financial statements of the Bank that are free from material misstatement, whether due to fraud or error. The Bank Company Act, 1991 and the local central bank (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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Bangladesh Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements of the Bank give a true and fair view of the financial position of the Bank as at 31 December 2017, and of its financial performance and cash flows for the year then ended in accordance with Bangladesh Financial Reporting Standards (BFRS) as explained in Note 3.1.

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 Responsibility section in forming the above opinion on the financial statements of the Bank 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 Responsibility 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 during the year ended 31 December 2017;

(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 and proper returns adequate for the purpose of our audit have been received from branches not visited by us;

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

(v) the expenditures incurred was for the purpose of the Bank's business;

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

(vii) adequate provisions have been made against classified loans and advances;

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

(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 spending over 2,150 person hours; and

(xi) Capital Adequacy Ratio (CAR) as required by the Bangladesh Bank has been maintained adequately during the year.

Hoda Vasi Ch

Hoda Vasi Chowdhury & Co
Chartered Accountants

Dhaka, 11 February 2018

Balance Sheet as at 31 December 2017

PROPERTY AND ASSETS	Notes	2017 BDT	2016 BDT
Cash	5		
In hand (including foreign currencies)		1,456,916,855	1,255,283,864
With Bangladesh Bank and its agent bank(s) (including foreign currencies)		26,519,713,751	17,524,114,805
		27,976,630,606	**18,779,398,669**
Balance with other banks and financial institutions	6		
In Bangladesh		134,209,605	132,238,542
Outside Bangladesh		2,359,351,182	2,008,847,587
		2,493,560,787	**2,141,086,129**
Money at call and short notice	7	**1,310,000,000**	**1,440,000,000**
Investments	8		
Government securities		31,404,926,775	37,868,520,744
Others		6,000,000	6,000,000
		31,410,926,775	**37,874,520,744**
Loans and advances	9		
Loans, cash credits, overdrafts etc.		67,907,720,280	61,181,670,796
Bills purchased and discounted		333,554,131	349,304,732
		68,241,274,411	**61,530,975,528**
Fixed assets including premises, furniture and fixtures	10	**333,843,489**	**403,678,614**
Other assets	11	**9,042,736,202**	**9,172,549,895**
Non - banking assets		-	-
Total assets		**140,808,972,270**	**131,342,209,579**
LIABILITIES AND CAPITAL			
Liabilities			
Borrowings from other banks, financial institutions and agents	12	**6,252,156,882**	**8,218,427,597**
Deposits and other accounts	13		
Current accounts and other accounts		40,933,496,924	35,364,666,536
Bills payable		1,983,907,500	2,824,966,561
Saving deposits		12,396,346,924	12,590,363,292
Term deposits		42,515,902,125	40,112,564,641
		97,829,653,473	**90,892,561,030**
Other liabilities	14	**7,445,495,927**	**6,428,840,359**
Total liabilities		**111,527,306,282**	**105,539,828,986**

	Notes	2017 BDT	2016 BDT
Capital/shareholders' equity			
Fund deposited with Bangladesh Bank	15	3,072,581,767	2,934,634,949
Other reserves	16	(126,773,148)	(128,146,945)
Profit and loss account	17	26,335,857,369	22,995,892,589
Total shareholders' equity		**29,281,665,988**	**25,802,380,593**
Total liabilities and shareholders' equity		**140,808,972,270**	**131,342,209,579**
OFF BALANCE SHEET ITEMS			
Contingent liabilities	18		
Acceptances and endorsements		71,300,858,731	45,222,350,663
Letters of guarantee		30,143,609,594	23,436,992,768
Irrevocable letters of credit		74,176,407,128	69,906,561,014
Foreign exchange contracts - Spot and Forward		3,357,031,546	5,441,092,856
Total		**178,977,906,999**	**144,006,997,301**
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		**178,977,906,999**	**144,006,997,301**

The annexed notes 1 to 36 form an integral part of these financial statements.

Francois de Maricourt
Chief Executive Officer, Bangladesh

Farhanul Gani Choudhury
Chief Financial Officer, Bangladesh

As per our report of same date

Hoda Vasi Ch

Hoda Vasi Chowdhury & Co
Chartered Accountants

Dhaka, 11 February 2018

Profit and Loss Account for the year ended 31 December 2017

	Notes	2017 BDT	2016 BDT
Interest income	19	4,985,860,593	5,031,431,394
Interest paid on deposits and borrowings	20	(1,479,579,958)	(1,968,023,212)
Net interest income		**3,506,280,635**	**3,063,408,182**
Income from investments	21	1,487,194,008	2,502,077,877
Commission, exchange and brokerage	22	3,727,368,615	3,998,775,450
Other operating income	23	27,923,692	2,909,274
Total operating income		**8,748,766,950**	**9,567,170,783**
Salaries and allowances	24	2,384,218,195	2,360,806,135
Rent, taxes, insurance, electricity etc.		524,500,931	536,702,895
Legal and professional expenses	25	126,592,849	52,427,382
Postage, stamp, telecommunication etc.		49,216,580	68,795,084
Auditors' fee	26	1,212,500	850,000
Stationery, printings and advertisements etc.		78,323,800	66,182,480
Chief Executive Officer's salary and allowances		51,151,939	61,455,103
Depreciation, impairment and repair of Bank's assets	27	435,571,022	452,684,235
Other operating expenses	29	445,038,127	384,238,324
		4,095,825,943	**3,984,141,638**
Expense allocation to OBU		(1,158,133,221)	(938,441,164)
Total operating expenses		**2,937,692,722**	**3,045,700,474**
Profit before provision		**5,811,074,228**	**6,521,470,309**
Specific provision for classified loans and advances	14.3	56,768,944	308,148,134
General provision for unclassified loans and advances and off balance sheet exposures	14.3	228,587,229	(217,537,262)
Other provision		(12,472,100)	-
Total provision		**272,884,073**	**90,610,872**
Profit before tax		**5,538,190,155**	**6,430,859,437**
Tax			
Current year		2,233,225,723	2,582,591,189
Prior year		(16,355,513)	(26,018,845)
Deferred tax		(18,644,835)	(19,916,406)
	30	**2,198,225,375**	**2,536,655,938**
Profit after tax for the year	17	**3,339,964,780**	**3,894,203,499**

HSBC

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

Bangladesh Branches

The annexed notes 1 to 36 form an integral part of these financial statements.

Francois de Maricourt
Chief Executive Officer, Bangladesh

Farhanul Gani Choudhury
Chief Financial Officer, Bangladesh

As per our report of same date

Hoda Vasi Chowdhury & Co
Chartered Accountants

Dhaka, 11 February 2018

Statement of Changes in Equity for the year ended 31 December 2017

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 2016	2,922,383,472	(33,351,058)	24,521,203,746	27,410,236,160
Exchange difference	12,251,477	-	-	12,251,477
Net profit for the year	-	-	3,894,203,499	3,894,203,499
Unrealised interest on amortisation of HTM Securities (net of deferred tax assets/liabilities)	-	(156,685,653)	-	(156,685,653)
Unrealised interest on revaluation of HFT Securities (net of deferred tax assets/liabilities)	-	(42,747,175)	-	(42,747,175)
Actuarial gain /(loss) (net of deferred tax assets/liabilities)	-	104,636,941	-	104,636,941
Profit remitted to head office	-	-	(5,419,514,656)	(5,419,514,656)
Balance at 31 December 2016	2,934,634,949	(128,146,945)	22,995,892,589	25,802,380,593
Exchange difference	137,946,818	-	-	137,946,818
Net profit for the year	-	-	3,339,964,780	3,339,964,780
Unrealised interest on amortisation of HTM Securities (net of deferred tax assets/liabilities)	-	50,088,898	-	50,088,898
Unrealised interest on revaluation of HFT Securities (net of deferred tax assets/liabilities)	-	(588,599)	-	(588,599)
Actuarial gain/(loss) (net of deferred tax assets/liabilities)	-	(48,126,502)	-	(48,126,502)
Profit remitted to head office	-	-	-	-
Balance at 31 December 2017	**3,072,581,767**	**(126,773,148)**	**26,335,857,369**	**29,281,665,988**

Cash Flow Statement for the year ended 31 December 2017

	Notes	2017 BDT	2016 BDT
A Cash flow from operating activities			
Interest received		4,975,044,315	5,026,928,581
Interest paid		(1,473,756,263)	(1,682,200,991)
Commission, exchange and brokerage received		3,808,075,235	3,769,302,778
Other income		24,516,280	737,938
Cash paid to employees		(2,549,642,143)	(2,294,021,596)
Cash paid to suppliers		(969,133,297)	(928,294,289)
Cash paid for other operating expenses		(449,894,072)	(398,212,556)
Operating profit before changes in operating assets and liabilities		3,365,210,055	3,494,239,865
(Increase)/decrease of operating assets:			
Loans and advances to customers		(6,710,298,883)	10,865,270,548
Other assets		1,032,898,232	(2,210,327,363)
Increase/(decrease) of operating liabilities:			
Customers deposits		6,937,092,443	(6,882,221,156)
Borrowing from other banks and financial institutions		(1,966,270,715)	157,811,432
Other liabilities		1,532,865,548	547,510,864
		826,286,625	2,478,044,325
Cash receipt from operating activities		**4,191,496,680**	**5,972,284,190**
Advance income tax paid	14.5	(2,992,945,916)	(4,817,915,627)
Net cash receipt from operating activities		**1,198,550,764**	**1,154,368,563**
B Cash flow from investing activities			
Income from investments		1,671,090,120	2,520,098,405
Investments made during the year		(24,197,192,241)	(27,773,702,651)
Proceeds from sale of investments		24,106,697,029	44,670,893,647
Purchase of property, plant and equipment	10	(59,039,751)	(107,830,859)
Proceeds from sale of property, plant and equipment		7,564,675	11,003,897
Net cash used in investing activities		**1,529,119,832**	**19,320,462,439**
C Cash flow from financing activities			
Cash remitted to head office	17	-	(5,419,514,656)
Net cash used in financing activities		**-**	**(5,419,514,656)**
D Net increase in cash and cash equivalents (A+B+C)		**2,727,670,596**	**15,055,316,346**
E Gain /(Loss) on revaluation of foreign currency deposited with Bangladesh Bank as capital	15	137,946,818	12,251,477
F Net increase in cash and cash equivalents (D+E)		2,865,617,414	15,067,567,823
G Opening cash and cash equivalents		**35,059,890,022**	**19,992,322,199**
H Closing cash and cash equivalents (F+G)	32	**37,925,507,436**	**35,059,890,022**

Notes to the Financial Statements as at and for the year ended 31 December 2017

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 licence 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 licence from Bangladesh Bank on 9 July 1998.

2 Principal activities

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

2.1 Retail Banking: With seven branches and thirty three ATMs in Dhaka and Chittagong. HSBC offers a wide range of personal banking and related financial services including current and savings accounts, personal loans, time deposits and inward and outward remittances.

As part of its financial services offers, since 2010 the Bank has provided personal internet banking ("PIB") for customers. PIB provides real time viewing, control and transaction access to customer accounts and comes with a state-of-the-art security device.

2.2 Commercial Banking: Commercial Banking provides a wide range of financial services and products having international connectivity to meet the need of 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 licence and therefore also provides foreign currency financing to qualifying customers.

2.3 Global Markets: 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 build a full understanding of client's financial requirements.

2.4 Financial Institutions Group: Financial Institutions Group is the client sector within Global Banking & Markets responsible for all aspects of the Group's relationships with financial institutions. Financial Institution Group manages banks and non-bank financial institutions.

2.5 Global Trade and Receivables Finance: HSBC is the largest trade bank with 150 years of experience. With a wide global-coverage and extensive experience in trade, the Global Trade and Receivable Finance (GTRF) continues to capture market share. The bank is perfectly placed to introduce new trades products with modernised and digitised methods.

Currently, HSBC operates in both the major commercial hubs (i.e. Dhaka and Chittagong) in Bangladesh and has presence in all the Export Processing Zones (EPZs) of the country. With a modern trade operation and robust technological platform, HSBC tries to ensure consistent and faster services to the customers in meeting their working capital needs.

The Bank has eight Business Development Offices in Dhaka, Chittagong, Comilla, Mongla, Adamjee, Karnaphuli, Ishwardi and Uttara export processing zones focused on handling of export-import documents.

2.6 Global Liquidity and Cash Management: Global Liquidity and Cash Management (GLCM) helps clients to maximise control over cash flows with our global payables, receivables and clearing services as well as an array of liquidity and investment solutions. Strategic cash management and enhanced visibility are vital to success and business growth by making faster, smarter business decisions. GLCM is part of HSBC's Global Commercial Banking and Global Banking and Markets and it supports relationship managers by providing the products and expertise that our customers need. HSBC GLCM is uniquely positioned to help clients make payments across borders, across currencies and regulations, quickly and cost effectively with dedicated in country and regional support.

2.7 Custody and Clearing: 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 to be formed and it is to issue financial reporting standards for public interest entities such as banks. The Bank Companies Act 1991 has been amended to require banks to prepare their financial statements under such financial reporting standards. The FRC has been formed but yet to issue any financial reporting standards as per the provisions of the FRA and hence Bangladesh Financial Reporting Standards (BFRS) as issued by the Institute of Charetred Accountants of Bangladesh (ICAB) are still applicable.

Accordingly, the financial statements of the Bank continue to be prepared in accordance with Bangladesh Financial Reporting Standards (BFRS) and the requirements of the Bank Companies Act 1991, the rules and regulations issued by Bangladesh Bank, the Companies Act 1994. In case any requirement of the Bank Companies Act 1991, and provisions and circulars issued by Bangladesh Bank differ with those of BFRS, the requirements of the Bank Companies Act 1991, and provisions and circulars issued by Bangladesh Bank shall prevail. Material deviations from the requirements of BFRS are as follows:

i) Investment in shares and securities

BFRS: As per requirements of BAS 39 investment in shares and securities generally falls either under "at fair value through profit and loss account" or under "available for sale" where any change in the fair value (as measured in accordance with BFRS 13) at the year-end is taken to profit and loss account or revaluation reserve 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

BFRS: As per requirement of BAS 39 where securities will fall under the category of Held for Trading (HFT), any change in the fair value of held for trading assets is recognised through the profit and loss account. Securities designated as Held to Maturity (HTM) are measured at amortised cost method and interest income is recognised through the profit and loss account.

Bangladesh Bank: 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. 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

BFRS: As per BAS 39 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 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.

However, as per Debt Management Department (DMD) circular letter no. 07 dated 29 July 2012, non-primary dealer banks are eligible to participate in the Assured Liquidity Support (ALS) programme, whereby such banks may carry out collateralised repo arrangements with Bangladesh Bank. Here the selling bank accounts for the arrangement as a loan, thereby continuing to recognise the asset.

iv) Provision on loans and advances/investments

BFRS: As per BAS 39 an entity should start the impairment assessment by considering whether objective evidence of impairment exists for financial assets that are individually significant. For financial assets that are not individually significant, the assessment can be performed on an individual or collective (portfolio) basis.

Bangladesh Bank: As per 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 5% under different categories of unclassified loans (good/standard loans) has to be maintained regardless of objective evidence of impairment. Also 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 BAS 39.

v) Recognition of interest in suspense

BFRS: Loans and advances to customers are generally classified as 'loans & receivables' as per BAS 39 and interest income is recognised through the effective interest rate method over the term of the loan. Once a loan is impaired, interest income is not recognised in the profit and loss account on the same basis based on the revised carrying amount.

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

BFRS: As per BAS 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 do not 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 BAS 39. As such full disclosure and presentation requirements of BFRS 7 and BAS 32 cannot be made in the financial statements.

viii) Financial guarantees

BFRS: As per BAS 39, financial guarantees are contracts that require an entity to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee liabilities are recognised initially at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The financial guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment when a payment under the guarantee has become probable. Financial guarantees are included within other liabilities.

Bangladesh Bank: As per BRPD 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.

ix) Cash and cash equivalent

BFRS: Cash and cash equivalent items should be reported as cash item as per BAS 7.

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

x) Non-banking asset

BFRS: No indication of Non-banking asset is found in any BFRS.

Bangladesh Bank: As per BRPD 14, there is a separate balance sheet item named Non-banking asset existed in the standard format.

xi) Cash flow statement

BFRS: 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 14, the cash flow statement is a mixture of both the direct and the indirect methods.

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

BFRS: 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 BAS 7.

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

xiii) Presentation of intangible asset

BFRS: Intangible asset must be identified and recognised, and the disclosure must be given as per BAS 38.

Bangladesh Bank: There is no regulation for intangible assets in BRPD 14.

xiv) Off-balance sheet items

BFRS: As per BFRS, 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

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

Bangladesh Bank: As per BRPD 14, provision on loans and advances/investments are presented separately as a liability and cannot be netted off against loans and advances.

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 BAS 19 and represents the financial performance and financial position of the branches in operation within Bangladesh.

All balances of all branches are included in these financial statements. In addition, separate sets of financial statements for Offshore Banking Unit (OBU) have been prepared.

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 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 4.3
- Income tax - as explained in note 4.20
- Retirement benefits - liability for gratuity - as explained in note 4.18

3.5 Reporting period

These financial statements cover one calendar year from 01 January 2017 to 31 December 2017. These financial statements are authorised for issue by management of the Bank on 11 February 2018.

3.6 Cash flow statement

The cash flow statement has been prepared in accordance with BAS 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 period.

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 BAS 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 initially measured at fair value, and subsequently 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 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:	2017	2016
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	2.00%	2.00%
Unclassified consumer financing other than housing finance and loans for professionals	5.00%	5.00%
Unclassified agricultural loans	1.00%	2.50%
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 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.13 (07 November 2013) and BRPD circular No.2 (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.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

Bangladesh Branches

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 semi-annual basis by management and certified by the Bank's external auditors 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 recognized 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).

- Acceptance 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 5 (28 January 2009) treasury securities held for Statutory Liquidity Reserve (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 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
- Leasehold improvements	10 years	10% 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.

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 BAS 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

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 Finance and operating leases

Agreements which transfer to counterparties substantially all the risks and rewards incidental to the ownership of assets, but not necessarily legal title, are classified as finance leases.

When the Bank is a lessee under finance leases, the leased assets are capitalised and included in "fixed assets" and the corresponding liability to the lessor is included in "Other liabilities". A finance lease and its corresponding liability are recognised initially at the fair value of the asset or, if lower, the present value of the minimum lease payments. Finance charges payable are recognised as interest expense over the period of the lease based on the interest rate implicit in the lease so as to give a constant rate of interest on the remaining balance of the liability.

All other leases are classified as operating leases. When the Bank is the lessee under an operating lease, leased assets are not recognised in the balance sheet. Rentals payable, including rent paid in advance, under operating leases are accounted for on a straight-line basis over the period of the lease, unless another systematic basis is more representative of the time pattern of the user's benefit, and are included in "Rent expenses".

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 BAS37, 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 Companies 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 1.25% 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 31 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 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.

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 actuarial 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).
- Rental payments are discussed in the accounting policies section on Finance & Operating leases (note 4.11).
- 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 by the Bank for the operations of the Bank and OBU are apportioned to each entity on the basis of total operating income. Group Head Office administration charges in respect of the Bank have not been included in the financial statements.

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 42.5%.

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.

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 account

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 BAS37, contingent liabilty 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 2017 have been considered. However, these amendments have no material impact on the financial statements of the Bank.

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

A number of standards and amendments to standards are effective for annual periods beginning after 1 January 2017 and earlier application is permitted. However, the Bank has not early applied the following new standards in preparing these financial statements.

(a) BFRS 9 Financial Instruments (to be adopted as IFRS 9)

BFRS 9, published in July 2014, replaces the existing guidance in BAS 39 Financial Instruments: Recognition and Measurement. BFRS 9 includes revised guidance on the classification and measurement of the financial instruments, a new expected credit loss model for calculating impairment of financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from BAS 39. BFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. As per the Bank's assessment, any material impact of BFRS 9 would be primarily on calculation of impairment provision. However, as Bangladesh Bank has not issued any circular to revise its current impairment, classification and measurement policies to align with BFRS 9 the Bank is unable to quantify any potential impact on its financial statements.

(b) BFRS 15 Revenue from Contracts with Customers (to be adopted as IFRS 15)

BFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing recognition guidance, including BAS 18 Revenue, BAS 11 Construction Contracts and BFRI 13 Customer Loyalty Programmes. BFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. Based on preliminary asesssment the Bank has determined that BFRS 15 has no material impact on its financial statements.

(c) IFRS 16 Leases

IFRS 16, issued in January 2016 replaces existing leases guidance and effective for reporting period beginning on or after 1 January 2019. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change. The Bank has not yet assessed any potential impact of IFRS 16 on its financial statements.

5 (i) Cash in hand (including foreign currencies)	**2017 BDT**	**2016 BDT**
Local currency	1,435,079,606	1,232,462,359
Foreign currencies	21,837,249	22,821,505
	1,456,916,855	**1,255,283,864**

(ii) Balance with Bangladesh Bank and its agent bank(s) (including foreign currencies)		
Bangladesh Bank - Local currency	8,684,748,445	6,976,116,525
Bangladesh Bank Amanah - Local currency	30,000,000	30,000,000
	8,714,748,445	7,006,116,525
Sonali Bank as an agent of Bangladesh Bank - Local currency	-	185,850
Total - Local currency (Annexure - E)	8,714,748,445	7,006,302,375
Bangladesh Bank - Foreign currencies clearing and capital accounts (Annexure - E)	17,804,965,306	10,517,812,430
	26,519,713,751	17,524,114,805
	27,976,630,606	**18,779,398,669**

(iii) Cash Reserve Ratio and Statutory Liquidity Reserve

Cash Reserve Ratio (CRR) and Statutory Liquidity Reserve (SLR) have been calculated and maintained in accordance with the Section 33 of the Bank Companies Act 1991 and the following 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
- MPD circular no.1	23 June 2014

According to Monetary Policy Department (MPD) circular no.1 (23 June 2014), CRR requirement is to be complied with on a bi-weekly basis during which period the minimum CRR requirement is 6.5% on average and no less than 6% on any day and the SLR requirement to be complied with is 13% for conventional and 5.5% for Islamic banking branch/windows on average demand and time liabilities respectively.

Set out below in note 5 (iv) & (v) the Bank demonstrates compliance with the CRR based on period end cash balances and cash balances during the last two weeks of the financial year ending 31 December 2017. Note 5 (vi) the Bank demonstrates compliance with the SLR based on period end cash balances of the financial year ending 31 December 2017.

(iv) Cash Reserve Ratio (CRR): Daily 6.00% of average demand and time liabilities including Amanah	**2017 BDT**	**2016 BDT**
Required reserve	6,414,564,064	5,883,535,431
Actual reserve held with Bangladesh Bank	8,858,334,588	7,163,461,121
Surplus	**2,443,770,524**	**1,279,925,690**

(v) Cash Reserve Ratio (CRR): Bi-weekly 6.50% of average demand and time liabilities including Amanah		
Required reserve	**6,949,111,069**	**6,373,830,050**
Bi-weekly average reserve held with Bangladesh Bank (Annexure - D)	**8,300,894,194**	**7,448,066,935**
Surplus	**1,351,783,125**	**1,074,236,885**

(vi) Statutory liquidity Reserve (SLR): 13% & 5.50% of average demand and time liabilities of Conventional banking and Amanah respectively		
Required reserve	**13,897,278,318**	**12,746,634,075**
Actual reserve held with Bangladesh Bank	**34,769,423,246**	**39,911,331,730**
Surplus	**20,872,144,928**	**27,164,697,655**

6 Balance with other banks and financial institutions

Inside Bangladesh - current account		
IFIC Bank Limited	1,229	1,300
Sonali Bank local office	45,545,152	588,815
United Commercial Bank	986,000	127,357
Standard Chartered Bank	39,982,040	15,577,353
	86,514,421	16,294,825
Short term deposit		
IFIC Bank Limited	11,953,231	11,640,009
Prime Bank Limited	4,555,170	4,572,279
Sonali Bank	26,615,240	95,270,472
United Commercial Bank	4,571,543	4,460,957
	47,695,184	115,943,717
	134,209,605	**132,238,542**
Outside Bangladesh - current account		
HSBC Hong Kong	9,619,933	7,862,752
HSBC Hong Kong Global ATM settlement account	5,919,601	15,391,024
HSBC Hong Kong	3,815,793	3,815,709
Settlement account with HSBC Hong Kong	70,495,580	70,443,553
HSBC Japan	28,961,170	31,872,184
HSBC Singapore	5,808,556	1,901,520
HSBC India	566,655,033	493,129,444
Credit Suisse AG Switzerland	6,274,508	799,162
HSBC Bank PLC UK	164,516,807	154,862,732
HSBC Bank USA	923,719,949	808,159,708
SCB Pakistan	218,957,944	119,715,005
HSBC Sri Lanka	131,916,049	165,839,618
HSBC Bank Australia TT account	378,445	999,754
HSBC Bank Australia DD account	783,814	509,311
HSBC Bank Canada	2,439,914	1,460,030
Nordea Bank Norway	-	32,847
Danske Bank Denmark	73,060	76,191
HSBC Bank PLC UK	149,965,082	73,391,992
HSBC Bank India	68,456,031	57,179,500
HSBC Dubai	593,913	1,405,551
(For detail see Annexure - B)	2,359,351,182	2,008,847,587
	2,493,560,787	**2,141,086,129**

6.1 Segregation of balances with other banks and financial institutions based on types of account		
Current account (including FCY nostro)	2,445,865,603	2,025,142,412
Short term deposit account	47,695,184	115,943,717
	2,493,560,787	**2,141,086,129**

6.2 Maturity grouping of balance with other banks and financial institutions		
Payable on demand	2,493,560,787	2,141,086,129
Payable within one month	-	-
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	-	-
	2,493,560,787	**2,141,086,129**

7 Money at call and short notice

Deposit with banks:		
The City Bank Limited	380,000,000	370,000,000
Pubali Bank Limited	240,000,000	-
Mercantile Bank Limited	-	380,000,000
BRAC Bank Limited	690,000,000	690,000,000
	1,310,000,000	1,440,000,000

8 Investments

Held to Maturity Securities (HTM)		
30 day Bangladesh Bank bills	1,248,275,190	-
91 day Treasury bills	596,608,361	-
182 day Treasury bills	7,558,466	-
364 day Treasury bills	4,215,017,524	1,209,449,385
2 year Government bonds	1,207,542,113	1,949,881,392
5 year Government bonds	3,278,371,335	7,030,016,886
10 year Government bonds	-	443,423,525
	10,553,372,989	**10,632,771,188**

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

Bangladesh Branches

	2017 BDT	2016 BDT
Held for Trading Securities (HFT)		
7 day Bangladesh Bank bills	4,298,788,592	12,697,115,424
91 day Treasury bills	-	-
182 day Treasury bills	-	2,996,324,052
364 day Treasury bills	12,812,659,168	8,122,083,000
2 year Government bonds	3,386,935,870	312,796,653
5 year Government bonds	351,526,256	3,045,137,119
10 year Government bonds	-	60,003,508
	20,849,909,886	**27,233,459,756**
Prize bonds	**1,643,900**	**2,289,800**
Government securities (HTM, HFT, Prize bonds)	**31,404,926,775**	**37,868,520,744**
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
	31,410,926,775	**37,874,520,744**

8.1 Maturity grouping of investments

Payable on demand	1,643,900	2,289,800
Payable within one month	7,907,584,707	16,133,599,353
More than one month but less than three months	2,105,847,527	1,668,542,284
More than three month but less than one year	15,962,153,472	16,688,636,347
More than one year but less than five years	5,427,697,169	3,375,452,960
More than five years	6,000,000	6,000,000
	31,410,926,775	**37,874,520,744**

8.2 Outstanding repo as at 31 December

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

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 transactions of repo and reverse repo

	Minimum Outstanding BDT	Maximum Outstanding BDT	Daily Average Outstanding BDT
2017			
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			-
2016			
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	-	-	-

9 Loans and advances

	2017 BDT	2016 BDT
Loans, cash credits, overdrafts:		
In Bangladesh:		
Staff loans	1,219,675,962	1,275,080,584
Home mortgage loans	2,254,032,364	2,842,623,240
Car loans	5,232,321	9,179,461
Personal loans	3,887,282,316	4,202,953,580
Overdraft for retail	270,902,477	352,707,121
Overdraft for corporate	5,010,978,823	3,821,057,238
Term loans	8,563,322,204	9,901,518,309
Import loans	12,615,695,524	14,387,032,946
Working Capital	34,080,598,289	24,389,518,317
	67,907,720,280	61,181,670,796
Outside Bangladesh:	-	-
	67,907,720,280	61,181,670,796
Bills purchased and discounted (note 9.10)	333,554,131	349,304,732
	68,241,274,411	**61,530,975,528**

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

Payable on demand	688,779,982	1,140,250,421
Payable within one month	17,617,180,417	11,023,781,881
More than one month but less than three months	13,870,084,637	13,991,404,528
More than three months but less than one year	22,044,414,753	19,004,903,128
More than one year but less than five years	11,071,135,157	12,781,276,669
More than five years	2,949,679,465	3,589,358,901
	68,241,274,411	**61,530,975,528**

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

Advances to allied concerns of directors	-	-
Advances to the chief executive officer	-	-
Advances to other senior executives and staff of the Bank	1,219,675,962	1,275,080,582
Advances to customers' group	19,366,699,132	22,143,801,082
Industrial advances	47,654,899,317	38,112,093,864
	68,241,274,411	**61,530,975,528**

9.3 Number of clients with amount of outstanding and classified loans to whom loans and advances sanctioned more than 10 % of total capital of the Bank

Number of clients	74	58
Amount of outstanding advances	25,969,853,942	18,467,176,715
Amount of classified advances	-	-

9.4 Cash collateral against total outstanding loans and advances as at 31 December

	2,195,753,716	2,883,978,889

9.5 Loans and advances including bills purchased and discounted

Loans	62,959,393,112	57,357,211,169
Overdrafts	5,281,881,299	4,173,764,359
	68,241,274,411	**61,530,975,528**

9.6 Particulars of loans and advances industry-wise classification

Readymade garments	9,224,527,537	8,912,148,048
Textile industries	5,800,787,315	9,014,581,768
Agriculture and agro processing	12,815,664,967	9,868,936,601
Steel and metal	5,714,676,079	4,488,094,987
Leather and leather products	438,068	21,949
Trade	1,785,428,644	4,798,164,541
Chemical and pharmaceuticals	6,944,017,010	3,655,787,951
Petroleum and coal products	283,211,146	499,251,710
Cement industries	5,016,522,358	2,772,911,270
Telecommunication	3,506,062,500	2,989,555,166
Non Government Organization (NGO)	1,632,476,386	824,757,384
Power and energy	742,188,910	291,331,233
Retail loans	6,417,449,477	7,407,463,404
Staff loans	1,219,675,962	1,275,080,582
Others	7,138,147,852	4,732,888,934
	68,241,274,411	**61,530,975,528**

9.7 Classification of loans and advances

Unclassified:		
Standard	66,599,118,858	59,879,824,718
Special Mention Account	68,910,957	104,334,056
	66,668,029,815	59,984,158,774
Classified:		
Substandard	219,594,196	262,210,846
Doubtful	30,522,795	49,600,712
Bad/Loss	1,323,127,605	1,235,005,196
	1,573,244,596	1,546,816,754
	68,241,274,411	**61,530,975,528**

9.8 Particulars of loans and advances

	2017 BDT	2016 BDT
i) Loans considered good in respect of which the Bank is fully secured;	64,263,636,218	57,616,479,598
ii) Loans considered good against which the Bank holds no security other than the debtor's personal guarantee;	2,757,962,231	2,639,415,346
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;	1,219,675,962	1,275,080,584
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;	1,219,675,962	1,275,080,584
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)	(3,782,942)	376,956,922
Amount of loans written off	184,493,595	93,706,997
Amount realised against the loan previously written off	51,179,191	63,404,618
b) Provision on classified loans and advances (For movement see note 14.3)	674,300,505	678,083,447
c) Interest creditable to the interest suspense account (note 14.4)	394,035,137	304,114,280
xi) Cumulative amount of written off loans		
Opening balance	2,042,892,191	1,949,185,194
Amount written off during the year	184,493,595	93,706,997
	2,227,385,786	2,042,892,191
The amount of written off loan for which law suit has been filed	1,416,943,379	1,245,223,686

9.9 Geographical analysis of loans and advances

Dhaka division	57,549,628,747	51,083,797,654
Chittagong division	10,691,645,664	10,151,341,303
Sylhet division	-	295,836,571
	68,241,274,411	**61,530,975,528**

9.10 Bills purchased and discounted

Inside Bangladesh	57,984,491	69,732,949
Outside Bangladesh	275,569,640	279,571,783
	333,554,131	**349,304,732**

9.11 Maturity analysis of bills purchased and discounted

Payable within one month	213,081,478	303,031,543
More than one month but less than three months	90,507,766	45,303,182
More than three months but less than six months	28,369,994	970,007
More than six months	1,594,893	-
	333,554,131	**349,304,732**

10 Fixed assets including premises, furniture and fixtures

2017	Furniture and fixtures BDT	Equipment BDT	Motor vehicles BDT	Computers BDT	Total BDT
Cost					
Balance as at 1 January	268,391,775	738,271,375	72,413,948	342,921,302	1,421,998,400
Addition during the year	31,414,763	24,085,026	-	3,539,962	59,039,751
Disposals/adjustment	(25,430,653)	(20,704,504)	(5,036,801)	(1,954,690)	(53,126,648)
Balance as at 31 December	**274,375,885**	**741,651,897**	**67,377,147**	**344,506,574**	**1,427,911,503**
Accumulated Depreciation and impairment charges					
Balance as at 1 January	181,679,070	533,753,829	50,118,059	252,768,828	1,018,319,786
Depreciation charge for the year	32,290,667	66,207,510	9,749,240	16,470,196	124,717,613
Disposals/adjustments	(22,050,731)	(20,084,651)	(5,036,801)	(1,797,202)	(48,969,385)
Balance as at 31 December	**191,919,006**	**579,876,688**	**54,830,498**	**267,441,822**	**1,094,068,014**
Net book value as at 31 December 2017	**82,456,879**	**161,775,209**	**12,546,649**	**77,064,752**	**333,843,489**
2016					
Cost					
Balance as at 1 January	242,839,643	726,338,519	84,678,849	360,606,086	1,414,463,097
Addition during the year	62,972,349	41,255,156	-	3,603,354	107,830,859
Disposals/adjustment	(37,420,217)	(29,322,300)	(12,264,901)	(21,288,138)	(100,295,556)
Balance as at 31 December	**268,391,775**	**738,271,375**	**72,413,948**	**342,921,302**	**1,421,998,400**
Accumulated Depreciation and impairment charges					
Balance as at 1 January	176,862,043	477,568,819	52,633,718	247,551,155	954,615,735
Depreciation charge for the year	34,945,824	83,966,169	9,749,242	26,505,811	155,167,046
Disposals/adjustments	(30,128,797)	(27,781,159)	(12,264,901)	(21,288,138)	(91,462,995)
Balance as at 31 December	**181,679,070**	**533,753,829**	**50,118,059**	**252,768,828**	**1,018,319,786**
Net book value as at 31 December 2016	**86,712,705**	**204,517,546**	**22,295,889**	**90,152,474**	**403,678,614**

Costs of BDT 50,429,200 (2016: BDT 50,429,200), accumulated depreciation of BDT 40,043,150 (2016: BDT 31,734,310) and net book value of BDT 10,386,050 (2016: BDT 18,694,890) included within motor vehicles above relate to assets acquired under finance leases, where the lease period is no more than 5 years. The Bank has the option to purchase these assets on expiry of the lease at a predetermined terminal value.

11 Other assets

	2017 BDT	2016 BDT
Classification of other assets		
a) Income generating other assets		
Offshore Unit, Dhaka (2016: USD60,000,000)	4,341,377,250	4,731,270,000
	4,341,377,250	**4,731,270,000**
b) Non-income generating other assets		
Offshore Unit, Dhaka (2016: USD22,730,905)	2,131,771,198	1,792,434,163
Stamp in hand	1,666,795	1,250,160
Intangible assets (note 11.1)	8,951,514	14,880,333
Other debtors (note 11.2)	49,516,739	136,457,637
Deferred tax (note 11.3)	313,283,126	295,653,703
Rent paid in advance	418,483,119	466,624,929
Other prepayments	89,664,504	3,855,700
Refundable deposits	4,603,214	6,381,944
Accrued interest on Bangladesh Bank foreign currency capital and clearing account	14,742,292	4,866,723
Accrued coupon interest on Bangladesh government treasury bond	262,048,229	445,944,341
Interest on balance with other banks and financial institutions	1,743,987	803,278
Items in course of collection from other banks	11,640,773	18,603,639
Commission receivable	76,437,364	187,230,193
Encashment of Bangladesh Sanchayapatra awaiting for reimbursement from Bangladesh Bank	1,306,417,222	989,046,309
Net surplus asset of defined benefit schemes (Note 24.2)	-	62,079,722
Unrealised gain on foreign exchange contract	10,388,876	15,267,121
	4,701,358,952	**4,441,279,895**
	9,042,736,202	**9,172,549,895**

11.1 Intangible assets (Purchased software)

Cost		
Balance as at 1 January	50,277,137	44,536,699
Acquisition during the year	2,912,415	5,740,438
Disposals/adjustment	(5,776,998)	-
Balance as at 31 December	**47,412,554**	**50,277,137**
Accumulated amortisation		
Balance as at 1 January	35,396,804	27,015,278
Charge for the year	8,841,234	8,381,526
Disposals/adjustment	(5,776,998)	-
Balance as at 31 December	**38,461,040**	**35,396,804**
Net book Value as at 31 December	**8,951,514**	**14,880,333**

11.2 Other debtors

Petty cash	110,000	140,001
Security charges recoverable	24,815,849	11,026,293
Others	24,590,890	125,291,343
	49,516,739	**136,457,637**

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 2017 BDT	Deferred tax assets 2016 BDT	Deferred tax liabilities 2017 BDT	Deferred tax liabilities 2016 BDT	Net deferred tax 2017 BDT	Net deferred tax 2016 BDT
Specific provisions on loans and advances	131,726,334	129,930,816	-		131,726,334	129,930,816
Fixed assets	89,046,239	73,479,238			89,046,239	73,479,238
Intangible assets	-	-	(1,191,341)	(2,473,657)	(1,191,341)	(2,473,657)
Actuarial (gain)/losses	88,170,695	52,598,932			88,170,695	52,598,932
Unrealised interest on amortisation of HTM securities	5,531,199	42,553,426			5,531,199	42,553,426
Unrealised interest on revaluation of HFT securities	-	-		(435,052)		(435,052)
Total	**314,474,467**	**298,562,412**	**(1,191,341)**	**(2,908,709)**	**313,283,126**	**295,653,703**

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.

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 BAS 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 2017 BDT	Deferred tax amount 2016 BDT
2011	2012	15,942,321	15,942,321
2013	2014	115,784,013	113,988,495
Total		**131,726,334**	**129,930,816**

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.

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 BFRS 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

	2017 BDT	2016 BDT
Balance as at 1 January	295,653,703	205,670,775
(Charge)/credit to profit and loss account (note 11.4.1)	18,644,835	19,916,406
(Charge)/credit to reserves (note 11.4.2)	(1,015,412)	70,066,522
Balance as at 31 December	**313,283,126**	**295,653,703**

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 amortisation and accounting amortisation (intangible assets) BDT	Specific provision on loans and advances BDT	Total BDT
2017				
Balance as at 1 January	73,479,238	(2,473,657)	129,930,816	200,936,397
(Charge)/credit to profit and loss account	15,567,001	1,282,316	1,795,518	18,644,835
Balance as at 31 December	**89,046,239**	**(1,191,341)**	**131,726,334**	**219,581,232**
2016				
Balance as at 1 January	50,894,110	(2,382,241)	132,508,122	181,019,991
(Charge)/credit to profit and loss account	22,585,128	(91,416)	(2,577,306)	19,916,406
Balance as at 31 December	**73,479,238**	**(2,473,657)**	**129,930,816**	**200,936,397**

11.4.2 Deferred tax (charged)/credited to reserves

	Actuarial gains/(losses) BDT	Unrealised interest on revaluation of HTM securities BDT	Unrealised interest on revaluation of HFT securities BDT	Total BDT
2017				
Balance as at 1 January	52,598,932	42,553,426	(435,052)	94,717,306
(Charge)/credit to reserves	35,571,763	(37,022,227)	435,052	(1,015,412)
Balance as at 31 December	**88,170,695**	**5,531,199**	**0**	**93,701,894**
2016				
Balance as at 1 January	129,939,278	(73,257,706)	(32,030,788)	24,650,784
(Charge)/credit to reserves	(77,340,346)	115,811,132	31,595,736	70,066,522
Balance as at 31 December	**52,598,932**	**42,553,426**	**(435,052)**	**94,717,306**

12 Borrowings from other banks, financial institutions and agents

	2017 BDT	2016 BDT
In Bangladesh:		
Term borrowings (note 12.1)	5,439,095,546	8,075,041,083
Other deposits-vostro account (note 12.2)	813,061,336	143,386,514
	6,252,156,882	8,218,427,597
Outside Bangladesh:	-	-
	6,252,156,882	**8,218,427,597**

12.1 Term borrowings

Foreign currency borrowing from Bangladesh Bank under export development funds	**5,439,095,546**	**8,075,041,083**

12.2 Other deposits - Vostro account

Bank of New York, New York	142	994,220
Deutsche Bank AG, London	54,858,554	74,352,240
HSBC Bank plc, London	270,004,630	48,788,662
Pershing LLC, New Jersey	91,018	10,111,691
Prime Bank, Dhaka	99,240	99,390
United Commercial Bank Limited, Dhaka	5,430	-
Pubali Bank Limited, Dhaka	590,440	588,414
Standard Bank plc, Cape Town	-	197,615
Saudi British Bank, Riyadh	-	2,683,085
HSBC Bank, Hong Kong	484,114,947	3,799,262
HSBC Bank, Singapore	3,296,935	1,771,935
	813,061,336	**143,386,514**

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

Bangladesh Branches

12.3 Classification based on type of security

	2017 BDT	2016 BDT
Secured	-	-
Unsecured	6,252,156,882	8,218,427,597
	6,252,156,882	**8,218,427,597**

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

Payable on demand	812,470,896	142,798,100
Payable within one month	260,488,906	588,414
More than one month but less than three months	1,138,062,663	1,507,802,925
More than three months but less than one year	4,041,134,417	6,567,238,158
More than one year but less than five years	-	-
Over five years	-	-
	6,252,156,882	**8,218,427,597**

13 Deposits and other accounts

Current deposits and other accounts:		
Current account	34,478,436,080	28,607,561,173
Sundry deposits*	6,455,060,844	6,757,105,363
	40,933,496,924	35,364,666,536
Bills payable:		
Cashiers order issued	767,868,062	1,843,207,268
Drawings payable	1,216,039,438	981,759,293
	1,983,907,500	2,824,966,561
Saving deposits	12,396,346,924	12,590,363,292
Term deposits:		
Short term deposits	11,108,648,230	12,745,600,899
Term deposits	31,407,253,895	27,366,963,742
	42,515,902,125	40,112,564,641
	97,829,653,473	**90,892,561,030**

Sundry deposits include BDT1,486,846 which had remained unclaimed for more than 10 years as of 4th quarter 2017. As per the Bangladesh Bank guideline unclaimed deposits for 10 years or more are required to deposit to the Bangladesh Bank following the quarter end. Accordingly, the entire amount was deposited to Bangladesh Bank on 7 January 2018.

13.1 Maturity analysis of deposits and other accounts

	2017 BDT	2016 BDT
Payable on demand	53,295,229,504	43,535,963,570
Payable within one month	15,562,760,145	11,774,458,555
More than one month but less than three months	6,937,119,157	6,465,975,709
More than three months but less than one year	16,618,741,565	14,528,750,680
More than one year but less than five years	5,335,371,067	14,587,412,516
Over five years	80,432,035	-
	97,829,653,473	**90,892,561,030**

14 Other liabilities

Accrued interest on customer deposits and borrowings	1,034,865,185	1,029,041,490
Deferred income	168,454,827	198,542,815
Obligation under finance lease - principal only (note 14.1)	13,378,687	22,454,852
Provisions for liabilities and charges (note 14.2)	780,368,560	665,405,717
Other creditors	387,350,060	321,131,647
Items in course of transmission	637,999,482	299,919,441
Provision for loans and advances and off balance sheet exposures (note 14.3)	3,177,900,233	2,953,095,946
Interest suspense account (note 14.4)	394,035,137	304,114,280
Interest received on non performing advances	287,779,219	294,498,114
Provision for taxation (note 14.5)	519,108,028	321,545,757
Net liability of defined benefit schemes (note 24.2)	17,181,548	-
Unrealised loss on foreign exchange contracts	27,074,961	19,090,300
	7,445,495,927	**6,428,840,359**

14.1 Obligation under finance leases

	Total future minimum payments BDT	Future interest charges BDT	Present value of finance lease obligation BDT
2017			
Lease obligation:			
Within one year	11,781,648	(1,277,622)	10,504,026
More than one year but less than five years	2,945,412	(70,751)	2,874,661
More than five years	-	-	-
	14,727,060	**(1,348,373)**	**13,378,687**
2016			
Lease obligation:			
Within one year	11,781,648	(2,705,483)	9,076,165
More than one year but less than five years	14,727,060	(1,348,373)	13,378,687
More than five years	-	-	-
	26,508,708	**(4,053,856)**	**22,454,852**

14.2 Provision for liabilities and charges

Balance as at 1 January	665,405,717	660,325,411
Net charge to profit and loss account	775,147,810	640,044,622
Provision released	(660,184,967)	(634,964,316)
Balance as at 31 December	**780,368,560**	**665,405,717**

14.3 Provision for loans and advances and off balance sheet exposures

	General provision on loans and advances BDT	General provision on off balance sheet exposures BDT	Total general provisions BDT	Specific provision on loans and advances BDT	Total provision BDT
2017					
Balance as at 1 January	834,942,526	1,440,069,973	2,275,012,499	678,083,447	2,953,095,946
Written off (net of recovery) during the year	-	-	-	(60,551,886)	(60,551,886)
Release during the year	-	-	-	(160,030,590)	(160,030,590)
Provision made during the year	33,791,707	194,795,522	228,587,229	216,799,534	445,386,763
Balance as at 31 December	**868,734,233**	**1,634,865,495**	**2,503,599,728**	**674,300,505**	**3,177,900,233**
2016					
Balance as at 1 January	991,404,114	1,501,145,647	2,492,549,761	376,956,922	2,869,506,683
Written off (net of recovery) during the year	-	-	-	(7,021,609)	(7,021,609)
Release during the year	(156,461,588)	(61,075,674)	(217,537,262)	(155,066,702)	(372,603,964)
Provision made during the year	-	-	-	463,214,836	463,214,836
Balance as at 31 December	**834,942,526**	**1,440,069,973**	**2,275,012,499**	**678,083,447**	**2,953,095,946**

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

	2017 BDT	2016 BDT
Required general provision		
On loans and advances at 0.25% to 5% under different categories of unclassified loans/investments (standard/SMA)	868,734,233	834,942,526
On off balance sheet exposures @ 1%	1,634,865,495	1,440,069,973
	2,503,599,728	**2,275,012,499**
Required specific provision		
On substandard loans and advances/investments other than agricultural loans @ 20%	13,795,879	22,065,765
On doubtful loans and advances/investment other than agricultural loans @ 50%	9,613,058	11,998,394
On substandard and doubtful agricultural loans @ 5%	-	-
On bad/loss and advances/investments @ 100%	650,891,568	644,019,288
	674,300,505	**678,083,447**
Total required provision	**3,177,900,233**	**2,953,095,946**
Total maintained provision	**3,177,900,233**	**2,953,095,946**
Surplus/ (Shortfall)	-	-

14.4 Interest suspense account

Balance as at 1 January	304,114,280	396,091,259
Recoveries during the year	(36,363,960)	(100,720,955)
Written off during the year	(79,503,286)	(30,429,880)
Provision made during the year	205,788,103	39,173,856
Balance as at 31 December	**394,035,137**	**304,114,280**

14.5 Provision for tax net of advance income tax paid

Provision for tax		
Balance as at 1 January	3,742,116,977	4,660,645,262
Provision made during the year		
Onshore unit	2,233,225,723	2,582,591,189
Offshore unit	973,637,977	853,992,999
	3,206,863,700	3,436,584,188
Adjustments made during the year		
Onshore unit	(2,590,165,000)	(3,466,596,235)
Offshore unit	(846,419,188)	(888,516,238)
	(3,436,584,188)	(4,355,112,473)
Balance as at 31 December	**3,512,396,489**	**3,742,116,977**
Advance income tax paid		
Balance as at 1 January	3,420,571,220	2,931,749,221
Amount paid during the year	2,992,945,916	4,817,915,627
Adjustments made during the year	(3,420,228,675)	(4,329,093,628)
Balance as at 31 December	**2,993,288,461**	**3,420,571,220**
Net provision	**519,108,028**	**321,545,757**

Provision for income tax is on the basis of applicable income tax regulations of Bangladesh. Tax return for the financial year ended 31 December 2017 is expected to be filed with the tax authorities by the due date of 15 September 2018.

The assessment for the accounting year 1997 (assessment year 1998-99) is yet to be finalised. The Bank has filed an appeal against the order of Taxes Appellate Tribunal to the High Court relating to assessment year 1998-99. The assessing authority had disallowed certain Group head office charges. However, no provision is required, as the Bank had adjusted the loss of 1996 with that of 1997. If the appeal is ruled in Bank's favour the Bank will be entitled to a refund of BDT 43,473,000 which the Bank will offset against any future tax liabilities.

The assessment for the accounting years 2006, 2007, 2009, 2010, 2011, 2012 and 2013 are yet to be finalised. The tax authorities have not accepted the Bank's excess profit computation for 2006 and 2007 on the grounds that they do not consider general provisions and tax rebate on head office expenses to be part of capital of the Bank. The excess profit computation for 2009, 2010, 2011 and 2012 have also been challenged on the same grounds as well arguing that various other components, including retained earnings, do not form part of capital.

For accounting year 2006, 2009, 2010, 2011 and 2012 the Bank has filed reference application to the High Court against the order of Taxes Appellate Tribunal. For accounting year 2007 and 2013 appeal has been filed against order of Deputy Commissioner of Tax to the Commissioner of Tax (Appeal).

Management believe that general provision, retained earnings and some of the other components that has 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 Companies 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

	2017 BDT	2016 BDT
Fund deposited with Bangladesh Bank at 1 January	2,934,634,949	2,922,383,472
Exchange difference: (USD 35,938,625 x 82.6929-78.8545); (2016: 78.8545-78.5136)	137,946,818	12,251,477
Funds deposited with Bangladesh Bank at 31 December	**3,072,581,767**	**2,934,634,949**

16 Other reserves

Unrealised interest on amortisation of HTM securities		
Opening balance	(57,572,284)	99,113,369
Unrealised interest on amortisation of HTM securities during this year	(8,245,569)	(97,976,494)
Unrealised interest on amortisation of HTM securities realised during this year	95,356,694	(174,520,291)
	87,111,125	(272,496,785)
Deferred tax liabilities (note 11.4.2)	(37,022,227)	115,811,132
	50,088,898	(156,685,653)
	(7,483,386)	**(57,572,284)**
Unrealised interest on revaluation of HFT securities		
Opening balance	588,599	43,335,774
MTM reserve for HFT during this year	-	1,023,652
MTM reserve for HFT realised during this year	(1,023,651)	(75,366,563)
	(1,023,651)	(74,342,911)
Deferred tax assets/(liabilities) (note 11.4.2)	435,052	31,595,736
	(588,599)	(42,747,175)
	-	**588,599**
Actuarial gain/(loss):		
Opening balance	(71,163,260)	(175,800,201)
Actuarial gain/(loss) during this year (note 24.2.4)	(83,698,265)	181,977,287
Less: Deferred tax assets (note 11.4.2)	35,571,763	(77,340,346)
	(48,126,502)	104,636,941
	(119,289,762)	**(71,163,260)**
	(126,773,148)	**(128,146,945)**

17 Profit and loss account

Opening balance	22,995,892,589	24,521,203,746
Profit for the year	3,339,964,780	3,894,203,499
Profit remitted to head office	-	(5,419,514,656)
Closing balance	**26,335,857,369**	**22,995,892,589**

18 Contingent liabilities

Acceptances and endorsements	71,300,858,731	45,222,350,663
	71,300,858,731	**45,222,350,663**
Letters of guarantee:		
Money for which the Bank is contingently liable in respect of guarantees given favouring Government	28,174,653,332	17,693,601,397
Bank and other financial institutions	38,402,368	119,212,918
Others	1,930,553,894	5,624,178,453
	30,143,609,594	**23,436,992,768**
Others		
Irrevocable letters of credit	74,176,407,128	69,906,561,014
Foreign exchange contracts - spot and forward	3,357,031,546	5,441,092,856
	77,533,438,674	**75,347,653,870**
	178,977,906,999	**144,006,997,301**

19 Interest income and profit received

Staff loans	50,280,171	52,359,676
Home mortgage loans	210,084,838	303,956,600
Car loans	1,044,599	3,607,829
Personal loans	479,611,175	595,928,305
Overdraft for retail	25,473,797	65,929,123
Overdraft for corporate	278,768,366	311,186,387
Term loans	795,093,618	870,253,906
Import loans	874,095,097	705,264,775
Working Capital	2,032,172,447	2,006,571,712
Export and import bills	19,019,605	19,280,244
Income from money market	44,333,841	35,397,541
Income from Offshore Banking Unit (OBU)	70,497,824	25,382,462
Other correspondent bank	1,468,359	2,048,479
Income from nostro accounts	175,596	559,233
Income from Bangladesh Bank FCY account	103,741,260	33,705,122
	4,985,860,593	**5,031,431,394**

20 Interest and profit paid on deposits and borrowings

Saving accounts	134,641,676	164,974,293
Term deposits	1,151,762,127	1,647,648,068
Marginal deposit	9,602,143	5,548,628
Interest paid on finance lease	2,705,483	3,939,303
Interest on vostro and overdrawn nostro	178,587	166,710
Money market call borrowing	1,829,722	1,998,236
Money market term borrowing	178,849,763	143,245,760
Interest on borrowing from OBU	10,457	502,214
	1,479,579,958	**1,968,023,212**

21 Income from investment

Interest on treasury bills/bonds	573,361,085	490,971,630
Interest on reverse repo	-	-
Interest on Bangladesh Bank bills	898,832,923	1,291,973,140
Gain/(loss) on disposal of government securities	-	711,633,107
Dividend on shares	15,000,000	7,500,000
	1,487,194,008	**2,502,077,877**

22 Commission, exchange and brokerage

Trading income	1,390,505,774	1,412,250,006
Commission income:		
Import LC	1,766,235,989	1,936,373,535
Export LC	188,043,819	174,334,369
Remittances	18,006,490	29,852,304
Account services	45,703,128	59,397,921
Credit facilities	144,709,772	148,187,422
Collection bills	551,835	750,631
Global custody	94,348,913	84,045,421
Other commissions and charges	114,731,346	195,952,282
	2,372,331,292	2,628,893,885
Commission paid	(35,468,451)	(42,368,441)
	2,336,862,841	2,586,525,444
	3,727,368,615	**3,998,775,450**

23 Other operating income

Profit/(loss) on disposals of fixed assets	3,407,412	2,171,336
Other income	24,516,280	737,938
	27,923,692	**2,909,274**

24 Salaries and allowances

	2017 BDT	2016 BDT
Short term employee benefits		
Basic salary	975,220,515	962,687,443
Allowances	535,698,598	535,392,693
Bonus	434,894,267	377,467,169
Others	263,049,550	253,719,894
	2,208,862,930	**2,129,267,199**
Long term employee benefits		
Bonus	7,007,823	6,082,777
	7,007,823	**6,082,777**
Post employment benefits		
Contribution to the defined benefit plan (note 24.1)	86,284,991	149,725,522
Contribution to the defined contribution plan	82,062,451	75,730,637
	168,347,442	**225,456,159**
	2,384,218,195	**2,360,806,135**

24.1 Total expense recognised in the profit and loss account in employee benefits relating to the defined benefit plan

Current service cost	99,094,000	132,372,000
Interest cost	(8,372,009)	2,017,000
Expected returns on plan assets	-	-
Past service cost	(4,437,000)	15,336,522
Contribution to the defined benefit plan (note 24)	**86,284,991**	**149,725,522**

24.2 Net asset/ (liability) recognised on the balance sheet in respect of the defined benefit plan

The Hongkong and Shanghai Banking Corporation Limited Employees Gratuity Fund (note 24.2.1)	**(17,181,548)**	**62,079,722**

24.2.1 Defined benefit plans

The calculation of the net liability under the Bank's defined benefit plan is set out below together with the expected rates of return and plan assets used to measure the net defined benefit plan cost in each subsequent year.

	2017 BDT	2016 BDT
Fair value of plan assets (note 24.2.3)		
Balance with Bank	836,320,452	807,517,722
	836,320,452	807,517,722
Defined benefit obligation (note 24.2.2)		
Present value of funded obligations	853,502,000	745,438,000
Present value of unfunded obligations	-	-
	853,502,000	745,438,000
Net assets/ (liabilities)	(17,181,548)	62,079,722

Plan assets are not invested in any assets issued by the Bank or in any property occupied by the Bank. The rate of return expected on plan assets is based on the expected rate paid by the Bank on the deposits placed by the Trustees of the Gratuity Fund with the Bank and also investment return if any.

24.2.2 Changes in the present value of defined benefit obligations

	2017 BDT	2016 BDT
At 1 January	745,438,000	894,575,544
Current service cost	99,094,000	132,372,000
Interest cost	54,341,000	74,284,000
Actuarial (gains)/losses	51,306,000	(192,793,000)
Experience (gains)/losses	(23,256,380)	(44,364,437)
Past service cost	(4,437,000)	15,336,526
Benefits paid	(68,983,620)	(133,972,633)
At 31 December (note 24.2.1)	**853,502,000**	**745,438,000**

24.2.3 Changes in the fair value of plan assets

At 1 January	807,517,722	774,677,983
Expected returns on plan assets	62,713,000	72,267,000
Contributions by the Bank	90,721,995	149,725,522
Actuarial gains/(losses)	(55,648,645)	(55,180,150)
Experience (gains)/losses	-	-
Benefits paid	(68,983,620)	(133,972,633)
At 31 December (note 24.2.1)	**836,320,452**	**807,517,722**

24.2.4 Summary

Defined benefit obligations (note 24.2.2)	(853,502,000)	(745,438,000)
Fair value of plan assets (note 24.2.3)	836,320,452	807,517,722
Net assets/(liabilities)	**(17,181,548)**	**62,079,722**
Actuarial (gains)/losses due to experience and assumptions (note 24.2.2 and 24.2.3)	106,954,645	(137,612,850)
Experience (gains)/losses (note 24.2.2 and 24.2.3)	(23,256,380)	(44,364,437)
Total net actuarial (gains)/losses (note 16)	**83,698,265**	**(181,977,287)**

25 Legal and professional expenses

Legal expenses	6,344,953	15,639,584
Other professional charges	120,247,896	36,787,798
	126,592,849	52,427,382

26 Auditors' fee

Statutory audit - current year	1,212,500	850,000
	1,212,500	**850,000**

27 Depreciation, impairment and repair of Bank's assets

Repair and maintenance	302,012,175	290,041,675
Impairment charge (release)	-	(906,012)
Depreciation on fixed assets (note 10)	124,717,613	155,167,046
Amortisation of intangible assets (note 11.1)	8,841,234	8,381,526
	435,571,022	**452,684,235**

28 Operating leases

There are no non-cancellable operating lease contracts. Whilst many operating lease contracts have notice periods for cancellation ranging up to 6 months, there are no minimum funding commitments under these contracts due to advance payments.

29 Other operating expenses

	2017 BDT	2016 BDT
Charitable donation	34,123,230	36,581,734
Subscription of corporate member fees	4,188,497	3,072,387
Training expenses	56,676,053	45,830,563
Entertainment expenses	16,664,030	19,868,599
Staff entertainment expenses	25,978,279	15,086,004
Outsource service cost	90,069,269	93,223,113
Security expenses	106,715,513	115,073,255
Staff recruitment costs	370,580	962,922
Transportation and conveyance expenses	13,356,094	12,985,712
Staff uniform	1,698,496	2,355,094
Generator and motor vehicles fuel and other expenses	4,441,990	7,523,136
Other office expenses	90,756,096	31,675,805
	445,038,127	**384,238,324**

30 Tax

Profit before tax	5,538,190,155	6,430,859,437
Notional tax on profit before tax, calculated at the rates of statutory tax rate @ 42.50%	2,353,730,816	2,733,115,261
Deferred tax (charge)/release	18,644,835	(19,916,406)
Tax charge/(release) for prior year	(16,355,513)	(26,018,845)
Tax effect on allowable/non-allowable expenses	(157,794,763)	(150,524,072)
	2,198,225,375	**2,536,655,938**

31 Capital adequacy under Basel III

Total Risk Weighted Assets (RWA) as on 31 December	**103,824,948,075**	**90,454,385,787**
11.25% of RWA under Basel III (including capital conservation buffer)	**11,680,306,658**	**9,610,778,490**
Required capital: The higher of 11.25% of RWA or BDT4 billion	**11,680,306,658**	**9,610,778,490**
Actual Capital maintained		
Common Equity Tier I		
Fund deposited with Bangladesh Bank	3,072,581,767	2,934,634,949
Retained earnings	26,335,857,369	22,995,892,589
Actuarial gain / (loss)	(119,289,763)	(71,163,261)
Less: Regulatory adjustment for Deferred tax assets as per the Bangladesh Bank guideline	-	-
	(307,888,151)	(292,065,872)
	28,981,261,222	25,567,298,405
Additional Tier I	-	-
	-	-
Total Tier I	28,981,261,222	25,567,298,405
Tier II		
General provision	2,503,599,728	2,275,012,499
Revaluation reserve on Government securities	33,979,646	50,969,469
	2,537,579,374	2,325,981,968
Total capital	**31,518,840,596**	**27,893,280,373**
Surplus	**19,838,533,938**	**18,282,501,883**
% of Capital adequacy required		
Common Equity Tier - I	**5.750%**	**5.125%**
Tier - I	**6.000%**	**5.500%**
Total	**11.250%**	**10.625%**
% of Capital adequacy maintained		
Common Equity Tier - I	**27.91%**	**28.27%**
Tier - I	**27.91%**	**28.27%**
Total	**30.36%**	**30.84%**

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

Bangladesh Branches

32 Cash and cash equivalents

	2017 BDT	2016 BDT
Cash in hand	1,456,916,855	1,255,283,864
Balance with Bangladesh Bank	26,519,713,751	17,524,114,805
Balance with other banks and financial institutions	2,493,560,787	2,141,086,129
Money at call and short notice	1,310,000,000	1,440,000,000
Prize bond	1,643,900	2,289,800
07 days Bangladesh Bank bills	4,298,788,592	-
30 days Bangladesh Bank bills	1,248,275,190	12,697,115,424
91 days Treasury bills	596,608,361	-
	37,925,507,436	**35,059,890,022**

33 Amanah Banking

The Bank established an Islamic Banking Branch (Amanah branch) from 26 February 2004, on Islamic Shariah Principles based banking. Following a strategic review of all business and operations around the world, the Group decided to restructure its Islamic banking business and no longer offer 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 for not 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 33.1 to 33.4 to comply the disclosures requirement of Amanah.

33.1 Amanah Balance Sheet as at 31 December

	2017 BDT	2016 BDT
Assets		
Cash in hand	-	-
Balance with Bangladesh Bank	30,000,000	30,000,000
Investments	414,742,128	536,319,953
Fixed assets	-	-
Other assets	-	-
	444,742,128	**566,319,953**
Liabilities		
Placement from banks and other financial institutions	-	-
Deposits and other accounts	14,486,511	16,755,910
Other liabilities	69,935,716	207,939,284
Retained earnings	360,319,901	341,624,759
	444,742,128	**566,319,953**
Off balance sheet items		
Acceptances and endorsements	-	-
Letters of guarantee	-	-
Irrevocable letters of credit	-	-
Foreign exchange contracts - Spot and Forward	-	-
	-	-

33.2 Amanah Profit and Loss Account for the year ended 31 December

Income from investments	47,137,143	72,488,130
Profit paid on deposits	(137)	(25,544)
Net investment income	**47,137,006**	**72,462,586**
Commission, exchange and brokerage	949,005	2,658,685
Other operating income	-	-
Total operating income	**48,086,011**	**75,121,271**
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	-	-
Total operating expense	-	-
Profit before provision	**48,086,011**	**75,121,271**
Specific provision for classified investments	11,280,546	(4,638,796)
General provision for unclassified investments and off balance sheet exposures	(2,326,232)	(4,402,070)
Total provision	**8,954,314**	**(9,040,866)**
Profit before tax	**39,131,697**	**84,162,137**
Current Tax	20,436,554	31,926,540
Profit after tax for the year	**18,695,143**	**52,235,597**

33.3 Amanah Assets and Liabilities Maturities Analysis as at 31 December 2017

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	-	-	-	-	-	-
Balance with Bangladesh Bank	30,000,000	-	-	-	-	30,000,000
Placement with other banks & financial institutions	-	-	-	-	-	-
Money at call and short notice	-	-	-	-	-	-
Investment	31,720	236,032	2,746,569	411,727,807	-	414,742,128
Fixed assets	-	-	-	-	-	-
Other assets	-	-	-	-	-	-
Non-banking assets	-	-	-	-	-	-
Total assets	**30,031,720**	**236,032**	**2,746,569**	**411,727,807**	**-**	**444,742,128**
Liabilities						
Placement from other banks & financial institutions	-	-	-	-	-	-
Deposits & other accounts	14,486,511	-	-	-	-	14,486,511
Other liabilities (including capital/shareholders' equity)	23,711,954	996	4,582	406,538,085	-	430,255,617
Total liabilities	**38,198,465**	**996**	**4,582**	**406,538,085**	**-**	**444,742,128**
Net Liquidity difference	**(8,166,745)**	**235,036**	**2,741,987**	**5,189,722**	**-**	**-**

33.4 (i) Amanah Cash Reserve Ratio (CRR): Daily 6.0% of average demand and time liabilities

	2017 BDT	2016 BDT
Required reserve	755,056	820,820
Actual reserve held with Bangladesh Bank	30,000,000	30,000,000
Surplus	29,244,944	29,179,180

ii) Amanah Cash Reserve Ratio (CRR): Bi-weekly 6.50% of average demand and time liabilities

Required reserve	817,977	889,222
Bi-weekly average reserve held with Bangladesh Bank	30,000,000	30,000,000
Surplus	29,182,023	29,110,778

(iii) Amanah Statutory Liquidity Reserve (SLR): 5.50% of average demand and time liabilities

Required reserve	692,130	752,418
Bi-weekly average reserve held with Bangladesh Bank	29,182,023	29,110,778
Surplus	28,489,893	28,358,360

34 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 licence issued by Bangladesh Bank and therefore the Key Management Personnel of the Bank for the purposes of BAS 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.

34.1 Transactions with key management personnel

There were no transactions between the Bank and the key management personnel of the Bank in 2017 (2016: BDT nil).

34.2 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 includes 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. Interest income received by the Bank from these entities during 2017 amounted to BDT175,596 (2016: BDT559,233) and interest expense paid to these entities during 2017 amounted to BDT178,587 (2016: BDT166,710), both of which is included in the net interest income disclosed in the profit and loss account.

34.3 Transactions with other related parties of the Bank

The Bank provides certain banking and financial services and administrative services to the Offshore Banking Unit (OBU) of HSBC operating in Bangladesh under the banking licence issued by Bangladesh Bank. As at year end the balance with the OBU is disclosed in note 11, Other assets.

The disclosure of the year end balance is considered to be the most meaningful information to represent transactions during the year. The outstanding balance includes loans made by the Bank to the OBU. 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. Net interest income received by the Bank from the OBU in 2017 amounted to BDT70,487,367 (2016: BDT 24,880,248) which is included in the net interest income disclosed in the profit and loss account.

Operating expenses incurred by the Bank for the operations of the Bank and OBU are apportioned to each entity on the basis of total operating income and reported in the profit and loss account. Income tax assessed for the Bank and the OBU is paid by the Bank and the element relating to the OBU is recharged back to the OBU as disclosed in note 14.5, Provision for tax net of advance tax paid.

34.4 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 2017 (2016: Nil). The total contribution to these schemes in 2017 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 2017 the provident fund had placed deposit of BDT 33,628,425 (2016: BDT 12,608,954) and the gratuity fund had placed deposits of BDT835,636,315 (2016: BDT 805,737,834) 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 2017 amounted to BDT180,179 (2016: BDT416,669) and on deposit placed by the gratuity fund in 2017 amounted to BDT8,605,374 (2016: BDT17,099,812), both of which are included in the interest expense disclosed in the profit and loss account.

35 Events after the balance sheet date

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

36 General

36.1 Core risk management

BRPD circular no.17 (7 October 2003) and BRPD circular no.4 (5 March 2007) 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.

36.1.1 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.

36.1.2 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 2017 year end, were as follows:

Mr. Francois de Maricourt (Chairman)	Chief Executive Officer
Mr. Farhanul Gani Choudhury	Chief Financial Officer
Mr. Mahbub Ur Rahman	Deputy CEO & Head of Corporate Banking
Mr. Faizur Rahman	Head of Retail Banking & Wealth Management
Mr. Bashar M Tareq	Head of Global Markets
Mr. Jamal Y Zuberi	Head of Balance Sheet Management
Mr. Saurav Saha	Chief Risk Officer
Mr. Al-Haj Aminuzzaman (Secretary)	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, the Bank's liquidity position, capital adequacy, balance sheet risk, interest rate risk and makes necessary changes in product and balance sheet mix as and when required.

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 Funding Plan which is reviewed and updated on an annual basis by ALCO. All regulatory requirements including CRR, SLR and RWA are reviewed by ALCO.

ALCO's primary function is to formulate policy and guidelines for the strategic management. 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 Transfer Pricing, Interest Rate Risk Behaviouralisation, Liquidity Premium and Liquidity Recharges, asset and liability pricing policy.

36.1.3 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. 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 2017 the Bank has no unadjusted debit entry exceeding three months, as a result, in accordance with (FEPD) circular No. 677 (13 September 2005) no provision on nostro balances are maintained.

36.1.4 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.

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 the Head of Audit, South Asia; 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 the audit action plans sorted by the Internal Audit function are implemented within an appropriate and agreed timetable. GBL INA as a third line of defense, assesses both the design and operating effectiveness of HSBC's internal governance structures and processes and controls to consider if they comply with relevant laws and regulations, internal policies and are appropriate for the size, complexity and risk profile of the organisation.

36.1.5 Prevention of money laundering and terrorist financing

HSBC is one of the leading members of the 'Wolfsburg Group of Banks' (International Anti-Money Laundering & Countering of Terrorist Financing standard setting body) and has very firm policies and procedures in place to combat money laundering and terrorist financing throughout its operations across the world.

Robust Anti-Money Laundering (AML) and Countering of Terrorist Financing (CTF) Policies are embedded in framework in which the Bank operates. In addition, HSBC Bangladesh has localised versions of specific Global Policy & Principles (GPP) taking into account all Bangladesh Financial Intelligence Unit (BFIU) Master Circulars and Guidance issued till date. These localised policies and procedures are approved by the country Risk Management Meeting (RMM) and Executive Committee (EXCO) and are strictly embedded in the Bank. The Global AML Policy in general establishes principles to be adhered to in order to ensure effective AML Risk Management, in accordance to the set three lines of defense model.

As part of our ongoing commitment to adopt and enforce industry leading compliance standards; Financial Crime Risk (FCR) function of HSBC has been providing guidance and advice to front lines to establish robust AML controls. The function consists of dedicated individuals providing in-depth focus on key risk areas i.e. Anti-Money Laundering, Counter Terrorist Financing, Sanctions and Anti-Bribery & Corruption where necessary. The function also consists of a Monitoring and Testing team, who performs on-going testing of AML, CTF, Sanctions and AB&C controls. The FCR Function is led by the Country Head of FCR who is an Executive Committee member of the bank and reports directly to the Chief Executive Officer (CEO).

The pivotal point of combating financial crime is to know our customer better, accordingly HSBC Bangladesh has robust policies and procedures for Know Your Customer (KYC), Identification & Verification (ID&V), Customer Due Diligence (CDD), Transaction Monitoring/Screening and Suspicious Activity Reporting(SAR), which are under dual control and continuous surveillance of the Bank's local and Global Compliance and Internal Audit teams. As part of our continuous awareness program, bank has mandatory online AML, CTF and Sanctions training modules which are mandatory for all staff. Annual refresher is also in place for all staff.

Some of the current challenges being faced by HSBC Bangladesh include, further strengthening infrastructure controls to Global Standard levels on AML and CTF which is ongoing. Furthermore, constant improvement actions relating to the recent HSBC Group FCC Audit in 2016 has a number of tasks related to Financial Crime Risk controls that are currently ongoing apart from a number of remediation projects relating to CDD in order to update the KYC profiles of the Bank's customers.

36.1.6 Information technology

The Bank has its IT Department which includes Infrastructure Delivery and Application Development & Maintenance teams for the support, service and software development 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) and Service Level Agreement (SLA) with global businesses and functions 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 Risk Management Forum (RMF) 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 Audit Status and remediation progress related to IT
- Incident report
- Emerging Risk / Risk Management Status related to IT

BB published a revised ICT security guideline v3.0 in September 2015. The bank performed gap analysis of BB ICT Security policy in 2016 and a gap analysis report submitted to BB on 5 May 2016 with target completion date. At present, all the gaps related to ICT security have been mitigated.

Besides, in HSBC Bangladesh, ICT Steering Committee and ICT/Cyber Governance Committee established in 2016 to comply with BB ICT Security guideline. These two committees look after ICT related risk and controls, risk assessment of various systems, cyber security risk and controls, regulatory & legal requirement related to ICT security etc. as per BB ICT Security guideline to mitigate operational risks. Moreover, periodic training and various initiatives are taken by Information Security Risk (ISR) team in Risk function to increase information security awareness among all staff.

In line with BB's annual ICT inspection, HSBC Bangladesh submits all the inspection/audit reports in timely manner and awaiting formal reports on 2017 inspection.

The Bank has a robust Business Recovery Plan (BRP) in place to ensure business continuity in case of any major disaster. This plan is reviewed and tested at least once in a year to ensure that the Bank can operate from the contingency site and findings are addressed for further improvement.

36.2 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.

36.3 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. 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 institutions, 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).

36.4 Exchange rates

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

	2017 BDT	2016 BDT
USD 1 =	82.69	78.85
HKD 1 =	10.58	10.17
SGD 1 =	61.80	54.42
GBP 1 =	111.11	96.63
AUD 1 =	64.33	56.89
EUR 1 =	98.71	82.45
CHF 1 =	84.39	76.99
JPY 1 =	0.73	0.68
CAD 1 =	65.54	58.32
NOK 1 =	9.99	9.07
AED 1 =	22.51	21.47
CNY 1 =	12.65	11.34
DKK 1 =	13.26	11.09

36.5 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 2017:

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.

36.6 BRPD circular No.06 (19 March 2015) as amended by BRPD circular No. 03 (16 February 2016) requires to pay rebate to the eligible good borrowers. Accordingly the Bank has paid an amount of BDT368,778,237 as a rebate to the eligible good borrowers for the period March 2015 to December 2016. The bank has also made adequate provision for good borrower rebate for the year 2017.

36.7 The Bank has sought external legal opinion, whereby it was stated that 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. 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 Companies 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 possibility 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.

36.8 The net amount of foreign currency exposure as at 31 December 2017 was BDT429,617,578.

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

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

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

Francois de Maricourt
Chief Executive Officer, Bangladesh

Farhanul Gani Choudhury
Chief Financial Officer, Bangladesh

Dhaka, 11 February 2018

HSBC

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

Bangladesh Branches

Statement of Liquidity (Assets and Liabilities Maturity Analysis) As at 31 December 2017

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*	25,004,761,483	-	-	-	2,971,869,123	27,976,630,606
Balance with other banks and financial institutions (note 6.2)	2,493,560,787	-	-	-	-	2,493,560,787
Money at call and short notice	1,310,000,000	-	-	-	-	1,310,000,000
Investment (note 8.1)	7,909,228,607	2,105,847,627	15,962,153,472	5,427,697,169	6,000,000	31,410,926,775
Loans and advances (note 9.1)	18,305,960,399	13,870,084,637	22,044,414,753	11,071,135,157	2,949,679,465	68,241,274,411
Fixed assets	8,074,046	496,977	12,863,909	210,399,406	102,009,151	333,843,489
Other assets	6,609,564,713	1,389,019,096	426,544,968	612,286,558	5,321,867	9,042,736,202
Non-banking assets -	-	-	-	-	-	-
Total assets	**61,641,150,035**	**17,365,448,237**	**38,445,977,102**	**17,321,517,290**	**6,034,879,606**	**140,808,972,270**
Liabilities						
Borrowings from other banks and financial institutions (note 12.4)	1,072,959,802	1,138,062,663	4,041,134,417	-	-	6,252,156,882
Deposits & other accounts (note 13.1)	68,857,989,649	6,937,119,157	16,618,741,666	5,335,371,067	80,432,035	97,829,653,473
Other liabilities (including capital/ shareholders' equity)	559,513,832	841,623,843	6,909,338,350	25,344,104,123	3,072,581,767	36,727,161,915
Total liabilities	**70,490,463,283**	**8,916,805,663**	**27,569,214,332**	**30,679,475,190**	**3,153,013,802**	**140,808,972,270**
Net liquidity difference	**(8,849,313,248)**	**8,448,642,574**	**10,876,762,770**	**(13,357,957,900)**	**2,881,865,804**	**-**

* 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 2017

Annexure - B

Bank Name	Currency Name	2017 Foreign currency	2017 Rate	2017 Local currency	2016 Foreign currency	2016 Rate	2016 Local currency
HSBC Hong Kong	HKD	909,261	10.5800	9,619,933	773,367	10.1669	7,862,752
HSBC Hong Kong Global ATM settlement account	HKD	559,511	10.5800	5,919,601	1,513,836	10.1669	15,391,024
HSBC Hong Kong Settlement account with	CNY	301,603	12.6517	3,815,793	336,571	11.3370	3,815,709
HSBC Hong Kong	USD	852,499	82.6929	70,495,580	893,336	78.8545	70,443,553
HSBC Japan	JPY	39,531,714	0.7326	28,961,170	47,120,446	0.6764	31,872,184
HSBC Singapore	SGD	93,991	61.7987	5,808,556	34,942	54.4199	1,901,520
HSBC India	USD	6,852,523	82.6929	566,655,033	6,253,663	78.8545	493,129,444
Credit Suisse AG Switzerland	CHF	74,352	84.3891	6,274,508	10,380	76.9913	799,162
HSBC Bank PLC UK	GBP	1,480,717	111.1062	164,516,807	1,602,664	96.6283	154,862,732
HSBC Bank USA	USD	11,170,487	82.6929	923,719,949	10,248,746	78.8545	808,159,708
SCB Pakistan	USD	2,647,845	82.6929	218,957,944	1,518,176	78.8545	119,715,005
HSBC Sri Lanka	USD	1,595,252	82.6929	131,916,049	2,103,109	78.8545	165,839,618
HSBC Bank Australia TT account	AUD	5,883	64.3268	378,445	17,572	56.8935	999,754
HSBC Bank Australia DD account	AUD	12,185	64.3268	783,814	8,952	56.8935	509,311
HSBC Bank Canada	CAD	37,227	65.5409	2,439,914	25,037	58.3157	1,460,030
Nordea Bank Norway	NOK	-	0.0000	-	3,623	9.0656	32,847
Danske Bank Denmark	DKK	5,511	13.2576	73,060	6,870	11.0902	76,191
HSBC Bank PLC UK	EUR	1,519,241	98.7105	149,965,082	890,137	82.4503	73,391,992
HSBC Bank India	EUR	693,503	98.7105	68,456,031	693,503	82.4503	57,179,500
HSBC Dubai	AED	26,381	22.5131	593,913	65,468	21.4693	1,405,551
Total				**2,359,351,182**			**2,008,847,587**

Financial Highlights As at 31 December 2017

Annexure - C

Sl No	Particulars	Currency/ percentage	2017	2016
1	Fund deposited with Bangladesh Bank as capital	BDT	3,072,581,767	2,934,634,949
2	Total capital including retained earnings	BDT	31,518,840,595	27,893,280,372
3	Surplus capital	BDT	19,838,533,937	18,282,501,882
4	Capital adequacy ratio	%	30.36	30.84
5	Total assets	BDT	140,808,972,270	131,342,209,579
6	Total deposits	BDT	97,829,653,473	90,892,561,030
7	Total loans and advances	BDT	68,241,274,411	61,530,975,528
8	Total contingent liabilities	BDT	178,977,906,999	144,006,997,301
9	Advances/deposits ratio	%	69.76	67.70
10	Classified advances as a percentage of total advances	%	2.31	2.51
11	Profit after tax and provisions	BDT	3,339,964,780	3,894,203,499
12	Amount of classified loans	BDT	1,573,244,596	1,546,816,754
13	Amount of provision against classified loans	BDT	674,300,505	678,083,447
14	Provision surplus	BDT	-	-
15	Interest expenses	BDT	1,479,579,958	1,968,023,212
16	Interest bearing assets	BDT	125,467,894,924	118,103,426,289
17	Non interest bearing assets	BDT	15,341,077,346	13,238,783,290
18	Return on Investment (ROI)*	%	4.73	6.61
19	Return on Average Investment (ROAI)*	%	4.21	6.27
20	Return on Assets (ROA)*	%	2.37	2.96
21	Income from investment	BDT	1,487,194,008	2,502,077,877

* Calculated on the basis of year end investment and asset balances respectively

Bi weekly average balance of Bangladesh Bank statement for the month of December 2017

Annexure - D

Date	Actual balance held with Bangladesh Bank (Conventional)	Actual balance held with Bangladesh Bank (Islamic)	Total actual balance held with Bangladesh Bank	Average balance held with Bangladesh Bank
15-Dec-17	7,607,838,551	30,000,000	7,637,838,551	
16-Dec-17	7,607,838,551	30,000,000	7,637,838,551	
17-Dec-17	8,047,509,011	30,000,000	8,077,509,011	
18-Dec-17	8,549,884,219	30,000,000	8,579,884,219	
19-Dec-17	8,122,435,837	30,000,000	8,152,435,837	
20-Dec-17	8,913,775,885	30,000,000	8,943,775,885	
21-Dec-17	8,058,606,548	30,000,000	8,088,606,548	
22-Dec-17	8,058,606,548	30,000,000	8,088,606,548	
23-Dec-17	8,058,606,548	30,000,000	8,088,606,548	
24-Dec-17	8,127,385,555	30,000,000	8,157,385,555	
25-Dec-17	8,127,385,555	30,000,000	8,157,385,555	
26-Dec-17	7,180,672,461	30,000,000	7,210,672,461	
27-Dec-17	8,831,317,679	30,000,000	8,861,317,679	
28-Dec-17	8,828,334,588	30,000,000	8,858,334,588	
29-Dec-17	8,828,334,588	30,000,000	8,858,334,588	
30-Dec-17	8,828,334,588	30,000,000	8,858,334,588	
31-Dec-17	8,828,334,588	30,000,000	8,858,334,588	**8,300,894,194**

Reconciliation between Bangladesh Bank's statement and Bank's statement As at 31 December 2017

Annexure - E

In order to comply with the CRR and SLR requirements, the Bank considers the actual balances held with Bangladesh Bank according to their books of accounts. However, when preparing the statutory accounts the Bank considers the actual balances held with Bangladesh Bank according to the Bank's books of accounts. This results in reconciling differences between the Bank's statutory accounts and CRR and SLR requirements. The reconciling items relates to clearing of the following:

- Bangladesh Bank cheques
- Foreign currency demand drafts
- Government bonds

	As per Bangladesh Bank statement	As per Bank's general ledger	Reconciling difference
Local currency	**BDT**	**BDT**	**BDT**
Bangladesh Bank Dhaka	8,374,327,479	8,232,573,767	141,753,712
Bangladesh Bank Chittagong	453,240,235	451,412,480	1,827,755
Bangladesh Bank Sylhet	766,873	762,198	4,675
Bangladesh Bank Amanan	30,000,000	30,000,000	-
Sonali Bank as an agent of Bangladesh bank	-	-	-
	8,858,334,588	**8,714,748,445**	**143,586,142**
Bank credited but Bangladesh Bank had not debited			15,688,537,002
Bank debited but Bangladesh Bank had not credited			(16,831,141,416)
Bangladesh Bank credited but Bank had not debited			16,553,391,370
Bangladesh Bank debited but the bank had not credited			(15,467,200,814)
			143,586,142

	As per Bangladesh Bank statement	As per Bank's general ledger		Reconciling difference
Foreign currency	**USD**	**USD**	**BDT**	**USD**
USD Clearing account	184,340,773	175,011,134	14,472,178,234	9,329,639
USD Capital account	35,938,625	35,938,625	2,971,869,123	-
Total	**220,279,398**	**210,949,759**	**17,444,047,357**	**9,329,639**
Bank credited but Bangladesh Bank had not debited				50,935,290
Bank debited but Bangladesh Bank had not credited				(42,973,090)
Bangladesh Bank credited but Bank had not debited				45,153,324
Bangladesh Bank debited but the Bank had not credited				(43,785,884)
				9,329,639

	As per Bangladesh Bank statement	As per Bank's general ledger		Reconciling difference
	GBP	**GBP**	**BDT**	**GBP**
GBP clearing account	**265,109**	**265,109**	**29,455,244**	**-**
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				-
				-

	As per Bangladesh Bank statement	As per Bank's general ledger		Reconciling difference
	EUR	**EUR**	**BDT**	**EUR**
EUR clearing account	**3,357,927**	**3,357,927**	**331,462,705**	**-**
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)			**17,804,965,306**	

Disclosures on risk based capital under Pillar - III of Basel III for the year ended 31 December 2017

Annexure - F

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 has an approved disclosure policy to observe the disclosure requirements set out by the Bangladesh Bank and International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) as adopted by the Institute of Chartered Accountants of Bangladesh (ICAB) into Bangladesh Accounting Standards (BAS) and Bangladesh Financial Reporting Standards (BFRS) where relevant to the Bank.

The major highlights of the Bangladesh Bank regulations are:

- To maintain Capital Adequacy Ratio (CAR) at a minimum of 11.25% (including capital conservation buffer @1.25%) 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

Qualitative disclosures:

HSBC Bangladesh's capital structure consists of Tier I and Tier II capital which is aligned with regulatory capital structure. Tier I capital 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) @ 2.50% of the total RWA will be maintained in the form of CET1 in a phased manner from 2016 to 2019.

Tier I capital of the Bank includes funds deposited with Bangladesh Bank, actuarial gain/(loss) and retained earnings. Tier 1 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 and revaluation reserve for Held to Maturity (HTM) and Held for Trading (HFT) securities. 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. Revaluation reserve for securities shown as Tier II capital as on 31 December 2014 will be nullified in a phased manner at the rate of 20% starting from 2015 and will be fully adjusted by 2020.

Quantitative disclosures:

The details of capital structure are provided as under:

	2017 BDT	2016 BDT
Common Equity Tier I		
Fund deposited with Bangladesh Bank	3,072,581,767	2,934,634,949
Retained earnings	26,335,857,369	22,995,892,589
Actuarial gain / (loss)	(119,289,763)	(71,163,261)
Less: Regulatory adjustment for deferred tax assets as per the Bangladesh Bank guideline	(307,888,151)	(292,065,872)
	28,981,261,221	**25,567,298,404**
Additional Tier I	-	-
	-	-
Total Tier I	**28,981,261,221**	**25,567,298,404**
Tier II		
General provision	2,503,599,728	2,275,012,499
Revaluation reserve for securities	33,979,646	50,969,469
	2,537,579,374	**2,325,981,968**
Total capital	**31,518,840,595**	**27,893,280,372**

4 Capital adequacy

Qualitative 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 30.36% as against the minimum regulatory requirement of 11.25% including capital conservation buffer. Tier I capital adequacy ratio is 27.91% 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:

	2017 BDT Risk Weighted Assets	2016 BDT Risk Weighted Assets
On balance sheet items	50,288,164,090	48,501,194,778
Off balance sheet items	34,234,968,238	20,242,722,629
Total credit risk	84,523,132,328	68,743,917,408
Market risk	1,475,194,880	2,223,323,820
Operational risk	17,826,620,867	19,487,144,559
Total risk weighted assets	**103,824,948,075**	**90,454,385,787**
Detail of capital adequacy		
Capital requirement for credit risk	9,508,852,387	7,304,041,225
Capital requirement for market risk	165,959,424	236,228,156
Capital requirement for operational risk	2,005,494,848	2,070,509,109
Total required capital	**11,680,306,658**	**9,610,778,490**
Common Equity Tier I capital	28,981,261,221	25,567,298,404
Total Tier I capital	28,981,261,221	25,567,298,404
Total Tier II capital	2,537,579,374	2,325,981,968
Total regulatory capital	**31,518,840,595**	**27,893,280,372**
Surplus	**19,838,533,937**	**18,282,501,882**
% of Capital adequacy required		
Common Equity Tier I	**5.750%**	**5.125%**
Tier I	**6.000%**	**5.500%**
Total	**11.250%**	**10.625%**
% of Capital adequacy maintained		
Common Equity Tier I	**27.91%**	**28.27%**
Tier I	**27.91%**	**28.27%**
Total	**30.36%**	**30.84%**

5 Credit Risk

Qualitative 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.

The standardised approach is applied for risk weighting of exposure as per directive of Bangladesh Bank. It requires banks to use risk assessments prepared by External Credit Assessment Institutions (ECAIs) to determine the risk weightings applied to rated counterparties. The Bank has applied some customer ratings based on their entity rating as assigned by the approved ECAIs of Bangladesh Bank.

It is HSBC's policy to establish that loans are within the customer's capacity to repay, rather than to rely excessively on security. Depending on the customer's standing and the type of product, facilities may be unsecured. Nevertheless, collateral can be an important mitigant of credit risk.

The Bank has guidelines on the acceptability of specific classes of collateral or credit risk mitigation, and determines suitable valuation parameters. Such parameters are expected to be conservative, reviewed regularly and supported by empirical evidence. Security structures and legal covenants are required to be subject to regular review to ensure that they continue to fulfill their intended purpose and remain in line with local market practice. The principal collateral types are as follows:

- Cash collateral
- In the personal sector, mortgages over residential properties
- In the commercial and industrial sector, charges over business assets such as premises, stock and debtors, plant and machineries

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.

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 "Managing Core Risks in Banking - Credit Risk Management - Industry Best Practices" and "Guidelines on Credit Risk Management (CRM) for Banks". Formal policies and procedures cover all areas of credit lending and monitoring processes including:

- 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. 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.

The Bank also has established a separate Risk Department which looks after the loan review mechanism and also helps in ensuring 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 as per the approved lending guideline. The Risk department also monitors various credit concentration limits. The Bank has in place a risk grading system for analysing the risk associated with credit. The parameters for risk grading customers include financial condition and performance, quality of disclosures and management, facility structure, collateral and country risk assessment where necessary. Maximum funded counterparty/group exposures are limited to 15% of the Bank's capital base as stipulated by Bangladesh Bank. Where a higher limit is required for projects of national importance, prior approval of Bangladesh Bank is obtained.

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

Credit risk mitigation

The Bank has adopted the simple approach for credit risk mitigation under the standardised approach where only cash collaterals are considered against the exposures to calculate the net exposure with applicable haircut.

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. However, the Bank's guidelines will not supersede local regulations. Thus, while dealing with NPLs, the Bank's decision is always compliant with local rules and regulations as well as Group guidelines which are more conservative than local regulations.

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 BRPD circular no.14 (23 September 2012) as amended by BRPD circular no. 19 (27 December 2012). 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	2017 BDT	2016 BDT
Claims on sovereigns and central banks	27,976,630,606	18,779,398,669
Claims on banks	3,803,560,788	3,581,086,130
Investments	10,555,016,889	10,635,060,988
Claims on corporate	60,113,556,318	52,361,459,361
Claims on consumer	6,858,313,277	7,882,246,282
Fixed assets	333,843,488	403,678,614
All other assets	9,805,824,640	9,965,983,013
Total on-balance sheet items	119,446,746,004	103,608,913,057
Off-balance sheet items (after considering the credit conversion factor)	46,397,855,994	36,508,747,101
Total	**165,844,601,998**	**140,117,660,158**

Geographical distribution of credit exposures

2017	Dhaka	Chittagong	Sylhet	Total BDT
Claims on sovereigns and central banks	26,980,987,114	995,643,492	-	27,976,630,606
Claims on banks	3,803,560,788	-	-	3,803,560,788
Investments	10,553,460,989	1,555,900	-	10,555,016,889
Claims on corporate	50,689,868,210	9,423,688,108	-	60,113,556,318
Claims on consumer	5,590,355,721	1,267,957,556	-	6,858,313,277
Fixed assets	251,706,030	82,137,458	-	333,843,488
All other assets	9,754,082,891	51,741,748	-	9,805,824,640
Total on-balance sheet items	107,624,021,741	11,822,724,263	-	119,446,746,004
Off-balance sheet items	42,852,547,271	3,545,308,724	-	46,397,855,994
Total	**150,476,569,012**	**15,368,032,986**	**-**	**165,844,601,998**

2016	Dhaka	Chittagong	Sylhet	Total BDT
Claims on sovereigns and central banks	17,337,185,413	885,803,570	556,409,686	18,779,398,669
Claims on banks	3,581,086,130	-	-	3,581,086,130
Investments	10,632,970,988	1,920,000	170,000	10,635,060,988
Claims on corporate	43,615,167,537	8,746,291,824	-	52,361,459,361
Claims on consumer	6,182,234,922	1,404,225,289	295,786,071	7,882,246,282
Fixed assets	381,394,350	21,316,783	967,481	403,678,614
All other assets	9,948,413,335	17,537,176	32,501	9,965,983,013
Total on-balance sheet items	91,678,452,675	11,077,094,643	853,365,739	103,608,913,057
Off-balance sheet items	33,976,209,262	2,532,537,838	-	36,508,747,101
Total	**125,654,661,937**	**13,609,632,481**	**853,365,739**	**140,117,660,158**

HSBC

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

Bangladesh Branches

Industry distribution of exposures

2017	Banks and FIs	Manufacturing	Industry	Retail	Others	Total BDT
Claims on sovereigns and central banks	27,976,630,606	-	-	-	-	27,976,630,606
Claims on banks	3,803,560,788	-	-	-	-	3,803,560,788
Investments	-	-	-	-	10,555,016,889	10,555,016,889
Claims on corporate	-	31,327,362,706	21,058,323,994		7,727,869,618	60,113,556,318
Claims on consumer	-	-	-	6,395,725,753	462,587,524	6,858,313,277
Fixed assets	-	-	-	-	333,843,488	333,843,488
All other assets	-	-	-	-	9,805,824,640	9,805,824,640
Total on-balance sheet items	31,780,191,393	31,327,362,706	21,058,323,994	6,395,725,753	28,885,142,157	119,446,746,004
Off-balance sheet items	15,008,078,441	-	-	-	31,389,777,553	46,397,855,994
Total	**46,788,269,834**	**31,327,362,706**	**21,058,323,994**	**6,395,725,753**	**60,274,919,711**	**165,844,601,998**

2016	Banks and FIs	Manufacturing	Industry	Retail	Others	Total BDT
Claims on sovereigns and central banks	18,779,398,669	-	-	-	-	18,779,398,669
Claims on banks	3,581,086,130	-	-	-	-	3,581,086,130
Investments	-	-	-	-	10,635,060,988	10,635,060,988
Claims on corporate	-	22,436,894,549	20,055,726,134		9,868,838,676	52,361,459,361
Claims on consumer	-	-	-	7,394,598,819	487,647,463	7,882,246,282
Fixed assets	-	-	-	-	403,678,614	403,678,614
All other assets	-	-	-	-	9,965,983,013	9,965,983,013
Total on-balance sheet items	22,360,484,799	22,436,894,549	20,055,726,134	7,394,598,819	31,361,208,756	103,608,913,057
Off-balance sheet items	11,876,640,262	-	-	-	24,632,106,838	36,508,747,101
Total	**34,237,125,062**	**22,436,894,549**	**20,055,726,134**	**7,394,598,819**	**55,993,315,594**	**140,117,660,158**

Maturity breakdown of credit exposures

2017	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	25,004,761,483	-	-	-	2,971,869,123	27,976,630,606
Claims on banks	3,803,560,788	-	-	-	-	3,803,560,788
Investments	1,534,562,621	2,107,491,427	4,815,712,892	2,097,249,949	-	10,555,016,889
Claims on corporate	17,685,931,431	13,789,812,234	21,873,470,008	6,452,284,001	312,058,644	60,113,556,318
Claims on consumer	570,300,114	80,034,270	163,288,215	4,182,076,422	1,862,614,256	6,858,313,277
Fixed assets	8,074,045	496,977	12,863,909	210,399,408	102,009,151	333,843,488
All other assets	7,372,653,151	1,389,019,096	426,544,868	612,285,658	5,321,867	9,805,824,640
Total on-balance sheet items	55,979,843,631	17,366,854,005	27,291,879,992	13,554,295,336	5,253,873,040	119,446,746,004
Off-balance sheet items	7,289,163,330	13,149,973,793	14,221,578,090	11,737,140,781	-	46,397,855,994
Total	**63,269,006,961**	**30,516,627,798**	**41,513,458,082**	**25,291,436,117**	**5,253,873,040**	**165,844,601,998**

2016	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	15,957,727,841	-	-	-	2,821,670,828	18,779,398,669
Claims on banks	3,581,086,130	-	-	-	-	3,581,086,130
Investments	442,449,677	691,464,424	6,500,617,612	3,000,529,276	-	10,635,060,988
Claims on corporate	10,317,049,760	15,133,059,489	18,660,817,447	7,810,911,122	439,621,543	52,361,459,361
Claims on consumer	115,476,753	94,895,500	342,600,831	4,966,968,958	2,362,304,240	7,882,246,282
Fixed assets	147,860	701,884	92,849,987	245,316,490	64,662,392	403,678,614
All other assets	6,865,832,153	1,098,197,698	584,784,736	562,221,540	856,946,886	9,965,983,013
Total on-balance sheet items	37,279,770,175	17,016,318,994	26,181,670,613	16,585,947,386	6,545,205,889	103,608,913,057
Off-balance sheet items	9,253,242,509	8,938,876,380	10,141,342,616	8,175,285,596	-	36,508,747,101
Total	**46,533,012,684**	**25,955,195,374**	**36,323,013,229**	**24,761,232,982**	**6,545,205,889**	**140,117,660,158**

Gross Non Performing Assets (NPAs)	2017 BDT	2016 BDT
Non Performing Assets (NPAs) to outstanding loans and advances	1,573,244,596	1,546,816,754
Movement of NPAs		
Opening Balance	1,546,816,754	1,506,157,676
Written off during the period	(184,493,595)	(93,706,997)
Recoveries during the period	(94,150,050)	(164,106,104)
Addition during the period	305,071,487	298,472,179
Closing Balance	**1,573,244,596**	**1,546,816,754**
Movement of specific provision for NPAs		
Opening Balance	678,083,447	376,958,922
Written off (net off recovery) during the period	(60,551,886)	(7,021,609)
Recoveries during the period	(160,030,590)	(155,066,702)
Provision made during the period	216,799,534	463,214,836
Closing Balance	**674,300,505**	**678,083,447**

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

Qualitative 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.

Details relating to re-pricing mismatches and the interest rate risk thereon are reported to ALCO regularly. In addition, scenario analysis assuming a 100 basis point parallel shift in interest rates and the impact on the interest income and net profit of the Bank are assessed on a quarterly basis and reported to ALCO with proposals for corrective action if necessary.

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:	2017 BDT	2016 BDT
Interest rate risk	104,554,312	71,776,989
Equity position risk	-	-
Foreign exchange risk	42,965,176	150,555,393
Commodity risk	-	-
	147,519,488	**222,332,382**

9 Operational risk

Qualitative 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 organisation and covers a wide spectrum of issues. The Group manages this risk through a control based environment in which processes are documented, authorisation 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 publicised 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 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:	2017 BDT	2016 BDT
Capital charge for operational risk	1,782,662,087	1,948,714,456

10 Liquidity Ratio

Qualitative 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 frameworks requires:

- liquidity to 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 time-line 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:

	2017 BDT	2016 BDT
Liquidity coverage ratio (%)	111.13%	144.36%
Net Stable Funding Ratio (%)	111.96%	111.71%
Stock of High quality liquid assets	48,878,111,009	44,960,341,826
Total net cash outflows over the next 30 calendar days	43,981,628,964	31,144,934,969
Available amount of stable funding	110,932,037,593	95,836,595,856
Required amount of stable funding	99,081,583,983	85,789,675,252

11 Leverage Ratio

Qualitative 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:

	2017 BDT	2016 BDT
Leverage ratio	14.51%	13.98%
On balance sheet exposure	140,134,671,763	130,774,314,941
Off balance sheet exposure	59,916,994,610	52,413,471,184
Total exposure	200,051,666,373	183,187,786,125

12 Remuneration

Qualitative 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 malus, 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 malus 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:

	2017 BDT	2016 BDT
Number of meetings held by the main body overseeing remuneration during the financial year	n/a	n/a
Remuneration paid to the main body overseeing remuneration during the financial year	n/a	n/a
Number of employees having received a variable remuneration award during the financial year	770	745
Guaranteed bonuses awarded during the financial year:		
Number of employee	847	840
Total amount of guaranteed bonuses	76,045,093	77,029,530
Sign-on awards made during the financial year:		
Number of employee	-	3
Total amount of sign-on awards	-	674,327
Severance payments made during the financial year:		
Number of employee	1	1
Total amount of severance payments	8,827,049	13,542,060
Total amount of outstanding deferred remuneration (in cash)	11,039,004	11,344,330
Total amount of deferred remuneration paid out in the financial year	4,781,294	4,551,277
Breakdown of amount of remuneration awards for the financial year:		
Fixed and variable	2,288,422,377	2,084,298,301
Variable pay		
Deferred	24,303,397	6,082,777
Non-deferred	355,118,304	309,557,381
	379,421,701	315,640,158

Offshore Banking Unit

Independent Auditor's Report to the Management of The Hongkong and Shanghai Banking Corporation Limited, Offshore Banking Unit, Bangladesh

We have audited the accompanying financial statements of The Hongkong and Shanghai Banking Corporation Limited (HSBC), Bangladesh Offshore Banking Unit (the "Bank") which comprise the balance sheet as at 31 December 2017 and profit and loss account, cash flow statement and statement of changes in equity for the year then ended, and a summary of significant accounting policies, other explanatory notes and annexures thereto.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements of the Bank that give a true and fair view in accordance with Bangladesh Financial Reporting Standards (BFRS) as explained in Note 3.1 and for such internal control as management determines is necessary to enable the preparation of financial statements of the Bank that are free from material misstatement, whether due to fraud or error. The Bank Company Act, 1991 and the local central bank (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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Bangladesh Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements of the Bank give a true and fair view of the financial position of the Bank as at 31 December 2017, and of its financial performance and cash flows for the year then ended in accordance with Bangladesh Financial Reporting Standards (BFRS) as explained in Note 3.1.

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 Responsibility section in forming the above opinion on the financial statements of the Bank 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 Responsibility 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 during the year ended 31 December 2017;

(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 and proper returns adequate for the purpose of our audit have been received from branches not visited by us;

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

(v) the expenditures incurred was for the purpose of the Bank's business;

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

(vii) adequate provisions have been made against classified loans and advances;

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

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

(x) we have reviewed over 80% of the risk weighted assets of the Bank and spending over 250 person hours.

Hoda Vasi Chowdhury

Hoda Vasi Chowdhury & Co
Chartered Accountants

Dhaka, 11 February 2018

HSBC

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

Offshore Banking Unit

Balance Sheet as at 31 December 2017

	Notes	2017 USD	2017 BDT	2016 USD	2016 BDT
PROPERTY AND ASSETS					
Cash					
In hand (including foreign currencies)		-	-	-	-
With Bangladesh Bank (including foreign currencies)		-	-	-	-
		-	-	-	-
Balance with other banks and financial institutions	5				
In Bangladesh		-	-	-	-
Outside Bangladesh		8,660,260	716,142,014	2,610,762	205,870,332
		8,660,260	**716,142,014**	**2,610,762**	**205,870,332**
Money at call and short notice		-	-	**27,000,000**	**2,129,071,500**
Investments		-	-	-	-
Loans and advances	6				
i) Loans, cash credits, overdrafts, etc.					
In Bangladesh		347,301,780	28,719,391,363	333,051,089	26,262,577,098
Outside Bangladesh		-	-	-	-
		347,301,780	28,719,391,363	333,051,089	26,262,577,098
ii) Bills purchased and discounted (excluding treasury bills of the Government) :					
Payable in Bangladesh		1,015,494,709	83,974,202,422	716,478,576	56,497,559,871
Payable outside Bangladesh		-	-	-	-
		1,015,494,709	83,974,202,422	716,478,576	56,497,559,871
		1,362,796,489	**112,693,593,785**	**1,049,529,665**	**82,760,136,969**
Fixed assets		-	-	-	-
Other assets	7	**139,394**	**11,526,894**	**186,867**	**14,735,304**
Non - Banking assets		-	-	-	-
Total assets		**1,371,596,143**	**113,421,262,693**	**1,079,327,294**	**85,109,814,105**
LIABILITIES AND CAPITAL					
Borrowings from other banks, financial institutions and agents	8				
Bangladesh Bank		-	-	-	-
Other:					
In Bangladesh		-	-	-	-
Outside Bangladesh		1,228,526,124	101,590,387,919	941,154,977	74,214,305,134
		1,228,526,124	101,590,387,919	941,154,977	74,214,305,134
		1,228,526,124	**101,590,387,919**	**941,154,977**	**74,214,305,134**
Deposits and other accounts	9				
Current account and other accounts		23,681,634	1,958,302,992	32,286,354	2,545,924,301
Bills payable		7,000,358	578,879,904	6,055,124	477,473,775
Term deposits		391,544	32,377,909	390,793	30,815,787
		31,073,536	**2,569,560,805**	**38,732,271**	**3,054,213,863**
Other liabilities	10	**81,414,388**	**6,732,391,818**	**84,787,714**	**6,685,892,794**
Total liabilities		**1,341,014,048**	**110,892,340,542**	**1,064,674,962**	**83,954,411,791**
Capital/shareholders' equity					
Profit and loss account		30,582,095	2,528,922,151	14,652,332	1,155,402,314
		30,582,095	**2,528,922,151**	**14,652,332**	**1,155,402,314**
Total liabilities and shareholders' equity	11	**1,371,596,143**	**113,421,262,693**	**1,079,327,294**	**85,109,914,105**
Off balance sheet items					
Contingent liabilities:	12				
Acceptances and endorsements		46,713,507	3,862,875,389	51,818,658	4,086,134,367
Letters of guarantee		1,319,397	109,104,764	1,264,642	99,722,713
Irrevocable letters of credit		67,382,135	5,572,024,114	71,640,796	5,649,199,148
Total Off Balance Sheet items		**115,415,039**	**9,544,004,267**	**124,724,096**	**9,835,056,228**

The annexed notes 1 to 19 form an integral part of these financial statements.

Francois de Maricourt
Chief Executive Officer, Bangladesh

Farhanul Gani Choudhury
Chief Financial Officer, Bangladesh

As per our report of same date

Hoda Vasi Chowdhury & Co
Chartered Accountants

Dhaka, 11 February 2018

Profit and Loss Account for the year ended 31 December 2017

	Notes	2017 USD	2017 BDT	2016 USD	2016 BDT
Interest income	13	50,211,933	4,152,170,354	38,960,031	3,072,173,861
Interest paid on deposits and borrowings	14	14,200,961	1,174,318,648	8,331,989	657,014,865
Net interest income		**36,010,972**	**2,977,851,706**	**30,628,042**	**2,415,158,996**
Commission, exchange and brokerage	15	5,698,165	471,197,816	6,755,195	532,677,459
Total operating income		**41,709,137**	**3,449,049,522**	**37,383,237**	**2,947,836,455**
Operating expenses		14,005,232	1,158,133,221	11,900,921	938,441,163
Profit before provision		**27,703,905**	**2,290,916,301**	**25,482,316**	**2,009,395,292**
Specific provision		-	-	-	-
Profit before tax		**27,703,905**	**2,290,916,301**	**25,482,316**	**2,009,395,292**
Provision for tax		11,774,142	973,637,977	10,829,984	853,992,999
Prior year		-	-	-	-
		11,774,142	**973,637,977**	**10,829,984**	**853,992,999**
Net Profit after tax		**15,929,763**	**1,317,278,324**	**14,652,332**	**1,155,402,293**

The annexed notes 1 to 19 form an integral part of these financial statements.

Francois de Maricourt
Chief Executive Officer, Bangladesh

Farhanul Gani Choudhury
Chief Financial Officer, Bangladesh

As per our report of same date

Hoda Vasi Chowdhury & Co
Chartered Accountants

Dhaka, 11 February 2018

Cash Flow Statement for the year ended 31 December 2017

	Notes	2017 USD	2016 USD
A) Cash flow from operating activities			
Interest received		50,228,160	38,942,563
Interest paid		(13,157,828)	(7,882,585)
Commission, exchange and brokerage received		5,727,012	6,889,876
Operating profit before changes in operating assets and liabilities		42,797,344	37,949,854
(Increase)/decrease in operating assets:			
Loans and advances to customers		(313,266,824)	136,929,738
Other assets		-	-
Increase/(decrease) in operating liabilities:			
Customers' deposits and other accounts		(7,658,735)	(6,454,458)
Borrowing from other banks and financial institutions		287,371,147	(131,230,220)
Other liabilities		(30,193,434)	6,877,198
		(63,747,846)	6,122,258
Net cash receipt/(used) from operating activities		(20,950,502)	44,072,112
B) Cash flow from investing activities:		-	-
C) Cash flow from financing activities:			
Profit remitted to head office	11	-	(15,179,678)
D) Net increase in cash and cash equivalents (A+B+C)		**(20,950,502)**	**28,892,434**
E) Opening cash and cash equivalents		**29,610,762**	**718,328**
F) Closing cash and cash equivalents (D+E)	16	**8,660,260**	**29,610,762**

Notes to the Financial Statements as at and for the year ended 31 December 2017

1 Background

The Hongkong and Shanghai Banking Corporation Limited ("HSBC"), Bangladesh Branches ("the Bank") commenced the operation of its Offshore Banking Unit (OBU) on 9 July 1998 after obtaining its licence from Bangladesh Bank. HSBC is incorporated in Hong Kong and its ultimate holding company HSBC Holdings plc ("the Group") is incorporated in England.

2 Principal activities

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

- *Commercial Banking:* Commercial Banking provides a wide range of financial services and products having international connectivity to meet the need of 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 licence and therefore also provides foreign currency financing to qualifying customers.

- *Global Markets:* 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 build a full understanding of client's financial requirements.

- *Financial Institutions Group (FIG):* Financial Institutions Group (FIG) is the client sector within Global Banking & Markets responsible for all aspects of the Group's relationships with financial institutions. FIG manages banks and non-bank financial institutions.

- *Global Trade and Receivables Finance:* HSBC is the largest trade bank with 150 years of experience. With a wide global-coverage and extensive experience in trade, the Global Trade and Receivable Finance (GTRF) continues to capture market share. The bank is perfectly placed to introduce new trades products with modernised and digitised methods.

Currently, HSBC operates in both the major commercial hubs (i.e. Dhaka and Chittagong) in Bangladesh and has presence in all the Export Processing Zones (EPZs) of the country. With a modern trade operation and robust technological platform, HSBC tries to ensure consistent and faster services to the customers in meeting their working capital needs.

The Bank has eight Business Development Offices in Dhaka, Chittagong, Comilla, Mongla, Adamjee, Karnaphuli, Ishwardi and Uttara export processing zones focused on handling of export-import documents.

- *Global Liquidity and Cash Management:* Global Liquidity and Cash Management (GLCM) helps clients to maximise control over cash flows with our global payables, receivables and clearing services as well as an array of liquidity and investment solutions. Strategic cash management and enhanced visibility are vital to success and business growth by making faster, smarter business decisions. GLCM is part of HSBC's Global Commercial Banking and Global Banking and Markets and it supports relationship managers by providing the products and expertise that our customers need. HSBC GLCM is uniquely positioned to help clients make payments across borders, across currencies and regulations, quickly and cost effectively with dedicated in country and regional support.

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 to be formed and it is to issue financial reporting standards for public interest entities such as banks. The Bank Companies Act 1991 has been amended to require banks to prepare their financial statements under such financial reporting standards. The FRC has been formed but yet to issue any financial reporting standards as per the provisions of the FRA and hence Bangladesh Financial Reporting Standards (BFRS) as issued by the Institute of Charetred Accountants of Bangladesh (ICAB) are still applicable.

Accordingly, the financial statements of the Bank continue to be prepared in accordance with Bangladesh Financial Reporting Standards (BFRS) and the requirements of the Bank Companies Act 1991, the rules and regulations issued by Bangladesh Bank, the Companies Act 1994. In case any requirement of the Bank Companies Act 1991, and provisions and circulars issued by Bangladesh Bank differ with those of BFRS, the requirements of the Bank Companies Act 1991, and provisions and circulars issued by Bangladesh Bank shall prevail. Material deviations from the requirements of BFRS are as follows:

i) Provision on loans and advances

BFRS: As per BAS 39 an entity should start the assessment of impairment by considering whether objective evidence of impairment exists for financial assets that are individually significant. For financial assets that are not individually significant, the assessment can be performed on an individual or collective (portfolio) basis.

Bangladesh Bank: As per Banking Regulation and Policy Department (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) provision for sub-standard loans, doubtful loans and bad losses has to be provided at 20%, 50% and 100% respectively for loans and advances depending on the duration of overdue. Such provision policies are not specifically in line with those prescribed by BAS 39.

ii) Other comprehensive income

BFRS: As per BAS 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 do not 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 statements of changes in equity.

iii) Financial instruments – presentation and disclosure

The Bangladesh Bank guidelines categorise, recognise, measure and present financial instruments differently from those prescribed in BAS 39. As such the full disclosure and presentation requirements of BFRS 7 and BAS 32 cannot be made in the financial statements.

iv) Financial guarantees

BFRS: As per BAS 39, financial guarantees are contracts that require an entity to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee liabilities are recognized initially at their fair value, and the initial fair value is amortized over the life of the financial guarantee. The financial guarantee liability is subsequently carried at the higher of this amortized amount and the present value of any expected payment when a payment under the guarantee has become probable. Financial guarantees are included within other liabilities.

Bangladesh Bank: As per BRPD 14, financial guarantees such as Letter of credit, Letter of guarantee will be treated as Off-Balance Sheet items. No liability is recognized for the guarantee except the cash margin.

v) Cash flow statement

BFRS: The cash flow statement can be prepared using either the direct method or the indirect method. The method 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 14, the cash flow statement is a mixture of both the direct and the indirect methods.

vi) Off-balance sheet items

BFRS: There is no concept of off-balance sheet items in any BFRS; hence there is no requirement for disclosure of off-balance sheet items.

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.

vii) Loans and advances net of provision

BFRS: Loans and advances should be presented net of provisions.

Bangladesh Bank: As per BRPD 14, provision on loans and advances are presented separately as liability and cannot be netted off against loans and advances.

3.2 Basis of measurement

The financial statements have been prepared on the historical cost basis.

3.3 Functional and presentation currency

Items included in the financial statements of the OBU are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements of the OBU are presented in USD which is the OBU's functional and presentation currency. The balance sheet and profit and loss accounts are also presented in BDT using the exchange rate prevailing at the balance sheet date.

3.4 Use of estimates and judgements

The preparation of financial statements requires management to make judgements, 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 judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is described below:

Provisions on loans and advances - as explained in note 4.3.

3.5 Reporting period

These financial statements cover one calendar year from 1 January 2017 to 31 December 2017. These financial statements are authorised for issue by management of the Bank on 11 February 2018.

3.6 Cash flow statement

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

3.7 Statement of Liquidity

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 BAS 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 ruling at the balance sheet date. Any resulting exchange differences are included in the profit and loss account.

4.2 Loans and advances

Loans and advances to customers are stated in the balance sheet on a gross basis, as per the requirement of Bangladesh Bank.

4.3 Provision 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 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:

	2017	2016
Specific provision on loans and advances		
Specific provision on substandard loans and advances/ investments other than agricultural loans	20%	20%
Specific provision on doubtful loans and advances/ investments other than agricultural loans	50%	50%
Specific provision on substandard and doubtful agricultural loans and advances/investments	5%	5%
Specific provision on bad/loss 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 judgements. 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.13 (07 November 2013) and BRPD circular No.2 (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.

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

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

4.6 Provisions for other assets

BRPD Circular No.14 (25 June 2001) requires a provision of 100% on other assets which are outstanding for one year and above.

4.7 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.

4.8 Borrowings from other banks, financial institutions and agents

Borrowings from other banks, financial institutions and agents includes interest-bearing borrowings against securities from Bangladesh Bank and call borrowing from other banks. These items are recognised in financial statements at the gross value of the outstanding balance.

4.9 Other liabilities

Other liabilities comprise items such as provision for loans and advances, provision for taxation, interest payable, interest suspense, accrued expenses etc. Other liabilities are recognised in the balance sheet according to the guidelines of Bangladesh Bank, Income Tax Ordinance 1984 and internal policy of the Bank.

4.10 Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount 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.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

Offshore Banking Unit

4.11 Contingent liabilities

As per BAS37 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
- income earned from services provided is recognised as revenue as the services are provided

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 result in the recognition of income which may never be realised.

4.12 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 include cash on hand and balances with Bangladesh Bank, other banks and financial institutions.

4.13 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 investments

Interest income on investments in Government and other securities and bonds is accounted for on an accrual basis.

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.

4.14 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.

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 percentages 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.

However, staff employee benefits, forming part of operating expenses are incurred by the Bank and apportioned to OBU. Refer to Note 4.15 for the basis of such apportionment.

4.15 Operating expenses

Operating expenses are incurred centrally by the Bank and apportioned between the onshore banking business and offshore banking unit on the basis of total operating income.

4.16 Income tax

Income tax on the profit or loss for the year comprises current 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 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 Special Regulatory Orders (SRO) and any adjustment to tax payable in respect of previous years. Currently the income tax rate applicable for banks is 42.5%.

4.17 Amanah facilities through OBU

Following a strategic review of all business and operations around the world, the Group decided to restructure its Islamic banking business and will no longer offer Shariah compliant products and services in Bangladesh. Within the restructuring procedure, the existing books of the Amanah business will run-off up to maturity as per Bangladesh Bank approval letter ref no. BRPD (P-3)745(37)/2013-1693 dated 10 April 2013.

4.18 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 2017 have been considered. However, these amendments have no material impact on the financial statements of the Bank.

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

A number of standards and amendments to standards are effective for annual periods beginning after 1 January 2017 and earlier application is permitted. However, the Bank has not early applied the following new standards in preparing these financial statements.

(a) BFRS 9 Financial Instruments (to be adopted as IFRS 9)

BFRS 9, published in July 2014, replaces the existing guidance in BAS 39 Financial Instruments: Recognition and Measurement. BFRS 9 includes revised guidance on the classification and measurement of the financial instruments, a new expected credit loss model for calculating impairment of financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from BAS 39. BFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. As per the Bank's assessment, any material impact of BFRS 9 would be primarily on calculation of impairment provision. However, as Bangladesh Bank has not issued any circular to revise its current impairment, classification and measurement policies to align with BFRS 9 the Bank is unable to quantify any potential impact on its financial statements.

(b) BFRS 15 Revenue from Contracts with Customers (to be adopted as IFRS 15)

BFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing recognition guidance, including BAS 18 Revenue, BAS 11 Construction Contracts and BFRI 13 Customer Loyalty Programmes. BFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. Based on preliminary asesssment the Bank has determined that BFRS 15 has no material impact on its financial statements.

(c) IFRS 16 Leases

IFRS 16, issued in January 2016 replaces existing leases guidance and effective for reporting period beginning on or after 1 January 2019. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change. The Bank has not yet assessed any potential impact of IFRS 16 on its financial statements.

There are no other standards that are not yet effective and that would be expected to have a material impact on the Bank in the current or future reporting periods and on foreseeable future transactions.

5 Balance with other Banks and Financial Institutions

	2017 USD	2016 USD
Inside Bangladesh	-	-
Outside Bangladesh:		
HSBC Bank, USA - USD	3,166,955	100,389
HSBC Bank, UK - GBP	787,311	704,399
HSBC Bank, UK - EUR	4,072,536	1,763,458
HSBC Hong Kong - CNY	4,100	25,183
Credit Suisse AG - CHF	296,194	17,333
HSBC Bank, Japan - JPY	333,164	-
(For detail see Annexure - B)	**8,660,260**	**2,610,762**

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

Current account	8,660,260	2,610,762
Short term deposit account	-	-
	8,660,260	**2,610,762**

5.2 Maturity grouping of balance with other banks and financial institutions

Payable on demand	8,660,260	2,610,762
Payable within one month	-	-
More than one month but less than three months	-	-
More than three months but less than one year	-	-
More that one year but less than five years	-	-
Over five years	-	-
	8,660,260	**2,610,762**

6 Loans and advances

	2017 USD	2016 USD
Loans		
Inside Bangladesh		
Overdraft	6,565,428	6,602,976
Term loans	219,048,661	202,901,055
Import loans	113,566,019	116,830,408
Working Capital	8,121,672	6,716,650
	347,301,780	333,051,089
Outside Bangladesh	-	-
	347,301,780	**333,051,089**
Bills purchased and discounted:		
Inside Bangladesh		
Import bills	-	61,301
Export bills	1,015,494,709	716,417,275
	1,015,494,709	716,478,576
Outside Bangladesh	-	-
	1,015,494,709	**716,478,576**
	1,362,796,489	**1,049,529,665**

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

Payable on demand	8,391,281	9,563,058
Payable within one month	220,345,324	151,996,498
More than one month but less than three months	383,455,184	320,010,800
More than three months but less than one year	554,969,064	378,501,208
More that one year but less than five years	94,794,314	120,012,291
Over five years	100,841,322	69,445,810
	1,362,796,489	**1,049,529,665**

6.2 Maturity analysis of bills purchased and discounted

Within one month	192,434,749	122,674,124
More than one month but less than three months	328,752,203	266,075,744
More than three months but less than six months	395,600,993	253,582,483
More than six months but less than one year	98,706,764	74,146,225
	1,015,494,709	**716,478,576**

6.3 Classification of loan and advances

Unclassified:		
Standard	1,362,796,489	1,049,529,665
Special Mention Account	-	-
	1,362,796,489	1,049,529,665
Classified:		
Substandard	-	-
Doubtful	-	-
Bad/Loss	-	-
	-	-
	1,362,796,489	**1,049,529,665**

6.4 Sector-wise classification of loans and advances

Readymade Garments and Textile	312,923,384	291,588,522
Other Manufacturing companies	104,870,147	90,619,861
Other	945,002,958	667,321,282
	1,362,796,489	**1,049,529,665**

6.5 Particulars of loans and advances

i) Loans considered good in respect of which the Bank is fully secured;	1,362,796,489	1,049,529,665
ii) Loans considered good against which the Bank holds no security other than the debtor's personal guarantee;	-	-
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;	-	-
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;	-	-
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;	-	-
b) Provision on classified loans and advances;	-	-
c) Provision kept against loan classified as bad debts;	-	-
d) Interest credited to the interest suspense account;	-	-
xi) Cumulative amount of written off loans:		
Opening balance	-	-
Amount written off during the year	-	-
The amount of written off loan for which law suit has been filed	-	-

6.6 Geographical Segmentation of Loans and Advances

Dhaka	1,360,541,604	1,045,191,842
Chittagong	2,254,885	4,337,823
	1,362,796,489	**1,049,529,665**

7 Other assets

Interest receivable from banks and other financial institutions	1,241	17,468
Commission receivable	138,153	169,399
	139,394	**186,867**

8 Borrowings from other banks, financial institutions and agents

In Bangladesh	-	-
Outside Bangladesh		
HSBC, Hong Kong	1,228,526,124	941,154,977
Other deposits- nostro overdrawn	-	-
	1,228,526,124	941,154,977
	1,228,526,124	**941,154,977**

8.1 Classification based on type of security

Secured	-	-
Unsecured	1,228,526,124	941,154,977
	1,228,526,124	**941,154,977**

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

Payable on demand	-	-
Payable within one month	68,390,724	61,239,777
More than one month but less than three months	-	53,000,000
More than three months but less than one year	-	-
More than one year but less than five years	1,160,135,400	826,915,200
	1,228,526,124	**941,154,977**

9 Deposits and other accounts

Current account	19,709,137	27,801,093
Sundry deposits	3,972,497	4,485,261
Bills payable	7,000,358	6,055,124
Term deposits	391,544	390,793
	31,073,536	**38,732,271**

9.1 Maturity analysis of deposits and other accounts

Payable on demand	28,795,263	36,200,621
Payable within one month	74,210	64,347
More than one month but less than three months	425,093	550,699
More than three months but less than one year	1,377,879	1,168,313
More than one year but less than five years	401,091	748,291
	31,073,536	**38,732,271**

10 Other liabilities

Interest payable	2,605,907	1,562,774
Commission received in advance	88,359	90,758
HSBC Bangladesh Branches	78,279,374	82,730,905
Others	440,748	403,277
	81,414,388	**84,787,714**

11 Profit and loss account

Opening balance	14,652,332	15,179,678
Profit for the year	15,929,763	14,652,332
Profit remitted to head office	-	(15,179,678)
Closing balance	**30,582,095**	**14,652,332**

12 Contingent liabilities

Acceptance and endorsement	46,713,507	51,818,658
	46,713,507	**51,818,658**
Letter of guarantees:		
Money for which the bank is contingently liable in respect of guarantees given favoring:		
Government	1,305,397	1,246,642
Other	14,000	18,000
	1,319,397	1,264,642
Irrevocable letters of credit	67,382,135	71,640,796
	67,382,135	**71,640,796**
	115,415,039	**124,724,096**

13 Interest income

Overdraft	232,147	215,505
Term loans	12,139,785	10,978,022
Import loans	4,656,179	4,217,499
Working capital	358,459	258,174
Export and import bills	32,701,967	23,238,862
Income from money market	123,278	51,889
Income from nostro accounts	-	80
Income from lending to HSBC Bangladesh Branches	118	-
	50,211,933	**38,960,031**

14 Interest paid on deposits and borrowings

Borrowing from banks	13,327,391	7,996,512
Customer fixed deposits	1,271	11,298
Interest on borrowing from HSBC Bangladesh Branches	872,299	324,179
	14,200,961	**8,331,989**

15 Commission, exchange and brokerage

	2017 USD	2016 USD
Dealing profit	(26,423)	414,751
Commission income:		
Import LC	2,962,670	3,990,504
Export LC	2,547,495	1,912,177
Account services	-	-
Credit facilities	83,500	103,752
Remittance	147,210	361,002
	5,740,875	6,367,435
Commission paid	(16,287)	(26,991)
	5,724,588	6,340,444
	5,698,165	**6,755,195**

16 Cash and cash equivalents

Balance with other banks (Note 5)	8,660,260	2,610,762
Money at call and short notice	-	27,000,000
	8,660,260	**29,610,762**

17 Related party transaction

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 OBU, not being incorporated in Bangladesh, operates in Bangladesh under the banking licence issued by Bangladesh Bank and therefore the Key Management Personnel of the Bank for the purposes of BAS 24 are defined as those persons having authority and responsibility for planning, directing and controlling the OBU, 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.

17.1 Transactions with key management personnel

There were no transactions between the OBU and the key management personnel of the OBU in 2017 (2016: USD nil).

17.2 Transactions, arrangements and agreements involving group entities

The OBU 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 5, Balance with other banks and financial institutions and Note 8, 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 includes loans made to or deposits by the OBU arising in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with third party counterparties. Interest income received by the OBU from these entities during 2017 amounted to USD68,215 (2016:USD15,568) and interest paid to these entities during 2017 amounted to USD1,596,130 (2016:USD8,320,031), both of which is included in the net interest income disclosed in the profit and loss account.

17.3 Transactions with other related parties of the Bank

The OBU provides certain banking and financial services and administrative services to the Bank operating in Bangladesh under the banking licence issued by Bangladesh Bank. As at year end the balance with the Bank is disclosed in Note 10, Other Liabilities.

Operating expenses incurred by the Bank for the operations of the Bank and OBU are apportioned to each entity on the basis of total operating income and reported in the profit and loss account. Income tax assessed for the Bank and the OBU are paid by the Bank and the element relating to the OBU is recharged back to the OBU as disclosed in Note 10, Other liabilities.

18 Events after the balance sheet date

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

19 General

19.1 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.

19.2 Exchange Rates

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

	2017 USD	2016 USD
GBP 1 =	1.3436	1.2254
EUR 1 =	1.1937	1.0456
CNY 1 =	0.1530	0.1438
CHF 1 =	1.0205	0.9764

19.3 Assets and liabilities have been converted into Taka currency @ USD 1 = BDT 82.6929 which represents the year-end middle rate of exchange as at 31 December 2017.

19.4 Previous year's figures have been rearranged, where necessary, to conform with the current year's presentation.

19.5 Figures appearing in these financial statements have been rounded off to the nearest integer.

Francois de Maricourt
Chief Executive Officer, Bangladesh

Farhanul Gani Choudhury
Chief Financial Officer, Bangladesh

Dhaka, 11 February 2018

Annexure - A

Statement of Liquidity (Assets and Liabilities Maturity Analysis) as at 31 December 2017

Particulars	Maturity up to 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 Amount
	USD	USD	USD	USD	USD	USD
ASSETS						
Cash in hand	-	-	-	-	-	-
Balance with other banks and financial institutions	8,660,260	-	-	-	-	**8,660,260**
Money at call and short notice	-	-	-	-	-	-
Investment in Treasury Bills and others	-	-	-	-	-	-
Loans and advances to customers (note 6.1)	228,738,605	383,455,184	554,969,064	94,794,314	100,841,322	**1,362,796,489**
Fixed assets	-	-	-	-	-	-
Other assets	138,153	1,241	-	-	-	**139,394**
Non-banking assets	-	-	-	-	-	-
Total assets	**237,535,018**	**383,456,425**	**554,969,064**	**94,794,314**	**100,841,322**	**1,371,596,143**
LIABILITIES						
Borrowings from other banks, financial institutions (note 8.2)	68,390,724	-	-	1,160,135,400	-	**1,228,526,124**
Deposits and other accounts (note 9.1)	28,869,473	425,093	1,377,879	401,091	-	**31,073,536**
Other liabilities (including capital/shareholders equity)	78,279,374	3,135,014	30,582,095		-	**111,996,483**
Total liabilities	**175,539,571**	**3,560,107**	**31,959,974**	**1,160,536,491**	-	**1,371,596,143**
Net liquidity difference	**61,995,447**	**379,896,318**	**523,009,090**	**(1,065,742,177)**	**100,841,322**	-

Annexure - B

Balance with other banks and financial institutions - Outside Bangladesh as at 31 December 2017

Name of the banks	Currency Name	2017 RCY	2017 Rate	2017 Foreign currency (USD)	2016 RCY	2016 Rate	2016 Foreign currency (USD)
HSBC Bank USA	USD	3,166,955	1.0000	3,166,955	100,389	1.0000	100,389
HSBC Bank UK	GBP	585,971	1.3436	787,311	574,832	1.2254	704,399
HSBC Bank UK	EUR	3,411,692	1.1937	4,072,536	17,753	0.9764	17,333
HSBC, Hong Kong	CNY	26,798	0.1530	4,100			
Credit Suissie AG SW	CHF	290,241	1.0205	296,194	1,686,551	1.0456	1,763,458
HSBC Japan	JPY	37,605,866	0.0089	333,164	175,160	0.1438	25,183
Total				**8,660,260**			**2,610,762**