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FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Bangladesh Branches

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of The Hongkong and Shanghai Banking Corporation Limited (HSBC), Bangladesh Branches (the "Bank") which comprise the balance sheet as at 31 December 2018 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.

In our opinion, the accompanying financial statements of the Bank give a true and fair view of the financial position of the Bank as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as explained in note 3.

Basis for Opinion

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements and Internal Controls

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of

accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Report on Other Legal and Regulatory Requirements

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

- (i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit and made due verification thereof;
- (ii) to the extent noted during the course of our audit work performed on the basis stated under the Auditor's Responsibility section in forming the above opinion on the financial statements and considering the reports of the Management to Bangladesh Bank on anti-fraud internal controls and instances of fraud and forgeries as stated under the Management's 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;
- (iii) in our opinion, proper books of account as required by law have been kept by the Bank so far as it appeared from our examination of those books;
- (iv) the records and statements submitted by the branches have been properly maintained and consolidated in the financial statements;
- (v) the balance sheet and profit and loss account together with the annexed notes dealt with by the report are in agreement with the books of account and returns;
- (vi) the expenditures incurred were for the purpose of the Bank's business for the year;
- (vii) the financial statements have been drawn up in conformity with prevailing rules, regulations and accounting standards as well as related guidance issued by Bangladesh Bank;
- (viii) adequate provisions have been made for loans and advances and other assets which are in our opinion, doubtful of recovery;
- (ix) the information and explanations required by us have been received and found satisfactory;
- (x) we have reviewed over 80% of the risk weighted assets of the Bank and spent over 2,280 person hours; and
- (xi) Capital to Risk-weighted Asset Ratio (CRAR) as required by Bangladesh Bank has been maintained adequately during the year.

Dhaka, 18 February 2019

Balance Sheet as at 31 December 2018

PROPERTY AND ASSETS	Notes	2018 BDT	2017 BDT
Cash	5		
In hand (including foreign currencies)		1,591,297,506	1,456,916,855
With Bangladesh Bank and its agent bank(s) (including foreign currencies)		44,161,418,654	26,519,713,751
		45,752,716,160	27,976,630,606
Balance with other banks and financial institutions	6		
In Bangladesh		154,562,977	134,209,605
Outside Bangladesh		4,649,897,315	2,359,351,182
		4,804,460,292	2,493,560,787

	Notes	2018 BDT	2017 BDT
Money at call on short notice	7	-	1,310,000,000
Investments	8		
Government securities		28,492,063,133	31,404,926,775
Others		6,000,000	6,000,000
		28,498,063,133	31,410,926,775
Loans and advances	9		
Loans, cash credits, overdrafts etc.		82,051,052,546	67,907,720,280
Bills purchased and discounted		1,194,585,309	333,554,131
		83,245,637,855	68,241,274,411
Fixed assets including premises, furniture and fixtures	10	292,843,266	333,843,489
Other assets	11	5,187,906,865	9,042,736,202
Non - banking assets		-	-
Total assets		167,781,627,571	140,808,972,270

LIABILITIES AND CAPITAL

Liabilities

Borrowings from other banks, financial institutions and agents	12	9,259,657,680	6,252,156,882
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Deposits and other accounts

Current accounts and other accounts	39,874,092,710	40,933,496,924
Bills payable	2,455,678,768	1,983,907,500
Saving deposits	19,871,514,757	12,396,346,924
Term deposits	55,619,240,613	42,515,902,125
	117,820,526,848	97,829,653,473

Other liabilities	14	9,994,651,202	7,445,495,927
Total liabilities		137,074,835,730	111,527,306,282

Capital/shareholders' equity

Fund deposited with Bangladesh Bank	15	3,099,690,272	3,072,581,767
Other reserves	16	(51,848,810)	(126,773,148)
Profit and loss account	17	27,658,950,379	26,335,857,369
Total shareholders' equity		30,706,791,841	29,281,665,988
Total liabilities and shareholders' equity		167,781,627,571	140,808,972,270

OFF BALANCE SHEET ITEMS

Contingent liabilities	18		
Acceptances and endorsements		87,675,262,477	71,300,858,731
Letters of guarantee		56,719,420,056	30,143,609,594
Irrevocable letters of credit		65,888,926,453	74,176,407,128
Foreign exchange contracts - Spot and Forward		5,094,357,828	3,357,031,546
Total		215,377,966,814	178,977,906,999

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	215,377,966,814	178,977,906,999

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

Dhaka, 18 February 2019

Hoda Vasi Chowdhury & Co
Chartered Accountants



FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Bangladesh Branches

Profit and Loss Account for the year ended 31 December 2018

	Notes	2018 BDT	2017 BDT
Interest income	19	7,076,229,753	4,985,860,593
Interest paid on deposits and borrowings	20	(2,242,405,469)	(1,479,579,958)
Net interest income		4,833,824,284	3,506,280,635
Income from investments	21	1,136,268,380	1,487,194,008
Commission, exchange and brokerage	22	3,462,492,646	3,727,368,615
Other operating income	23	35,324,256	27,923,692
Total operating income		9,467,909,566	8,748,766,950
Salaries and allowances	24	2,588,251,877	2,384,218,195
Rent, taxes, insurance, electricity etc.		625,660,862	524,500,931
Legal and professional expenses	25	31,614,344	126,605,349
Postage, stamp, telecommunication etc.		92,230,721	49,216,580
Auditors' fee	26	1,200,000	1,200,000
Stationery, printings and advertisements etc.		132,974,922	78,323,800
Chief Executive Officer's salary and allowances		67,714,020	51,151,939
Depreciation, impairment and repair of Bank's assets	27	372,300,872	435,571,022
Other operating expenses	29	561,924,056	445,038,127
		4,473,871,674	4,095,825,943
Expense allocation to Offshore Banking Unit		(736,107,046)	(1,158,133,221)
Total operating expenses		3,737,764,628	2,937,692,722
Profit before provision		5,730,144,938	5,811,074,228
Specific provision for classified loans and advances	14.3	105,939,150	56,768,944
General provision for unclassified loans and advances and off balance sheet exposures	14.3	326,133,407	228,587,229
Other provision		-	(12,472,100)
Total provision		432,072,557	272,884,073
Profit before tax		5,298,072,381	5,538,190,155
Tax			
Current year		2,375,688,268	2,233,225,723
Prior year		(153,439,571)	(16,355,513)
Deferred tax		(225,594)	(18,644,835)
	30	2,222,022,903	2,198,225,375
Profit after tax for the year	17	3,076,049,478	3,339,964,780

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, 18 February 2019

Statement of Changes in Equity for the year ended 31 December 2018

Particulars	Fund deposited with Bangladesh Bank	Other reserve	Profit and loss account	Total
	(Note 15) BDT	(Note 16) BDT	(Note 17) BDT	BDT
Balance at 01 January 2017	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
Exchange difference	27,108,505	-	-	27,108,505
Net profit for the year	-	-	3,076,049,478	3,076,049,478
Unrealised interest on amortisation of HTM Securities (net of deferred tax assets/liabilities)	-	9,342,390	-	9,342,390
Unrealised interest on revaluation of HFT Securities (net of deferred tax assets/liabilities)	-	-	-	-
Actuarial gain/(loss) (net of deferred tax assets/liabilities)	-	65,581,948	-	65,581,948
Profit remitted to head office	-	-	(1,752,956,468)	(1,752,956,468)
Balance at 31 December 2018	3,099,690,272	(51,848,810)	27,658,950,379	30,706,791,841

Cash Flow Statement for the year ended 31 December 2018

	Notes	2018 BDT	2017 BDT
A Cash flow from operating activities			
Interest received		7,056,749,914	4,975,044,315
Interest paid		(1,875,013,555)	(1,473,756,263)
Dividends receipts		7,500,000	15,000,000
Commission, exchange and brokerage received		3,434,620,577	3,808,075,235
Other income		20,959,379	24,516,280
Cash paid to employees		(2,580,867,535)	(2,549,642,143)
Cash paid to suppliers		(1,034,574,736)	(969,133,297)
Cash paid for other operating expenses		(473,890,353)	(449,894,072)
Operating profit before changes in operating assets and liabilities		4,555,483,691	3,380,210,055
(Increase)/decrease of operating assets:			
Loans and advances to customers		(15,004,363,444)	(6,710,298,883)
Other assets		4,486,786,519	1,032,898,232
Increase/(decrease) of operating liabilities:			
Customers deposits		19,990,873,375	6,937,092,443
Borrowing from other banks and financial institutions		3,007,500,798	(1,966,270,715)
Other liabilities		2,263,887,608	1,532,865,548
		14,744,684,856	826,286,625
Cash receipt from operating activities		19,300,168,547	4,206,496,680
Advance income tax paid	14.5	(2,861,011,433)	(2,992,945,916)
Net cash receipt from operating activities		16,439,157,114	1,213,550,764
B Cash flow from investing activities			
Income from investments		1,210,006,200	1,656,090,120
Investments made during the year		(19,485,786,234)	(24,197,192,241)
Proceeds from sale of investments		23,246,973,953	24,106,697,029
Purchase of property, plant and equipment	10	(97,206,535)	(59,039,751)
Proceeds from sale of property, plant and equipment		38,012,601	7,564,675
Net cash used in investing activities		4,911,999,985	1,514,119,832

	Notes	2018 BDT	2017 BDT
C Cash flow from financing activities			
Cash remitted to head office	17	(1,752,956,468)	-
Net cash used in financing activities		(1,752,956,468)	-
D Net increase in cash and cash equivalents (A+B+C)		19,598,200,631	2,727,670,596
E Gain/(Loss) on revaluation of foreign currency deposited with Bangladesh Bank as capital	15	27,108,505	137,946,818
F Net increase in cash and cash equivalents (D+E)		19,625,309,136	2,865,617,414
G Opening cash and cash equivalents		37,925,507,436	35,059,890,022
H Closing cash and cash equivalents (F+G)	32	57,550,816,572	37,925,507,436

Notes to the Financial Statements as at and for the year ended 31 December 2018

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 commercial and institutional banking, retail banking, global markets, global trade and receivable finance, global liquidity and cash management and custody and clearing.

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

2.2 Retail Banking: There are seven branches and thirty three ATMs in Dhaka, Chattogram and Export Processing Zones (EPZ). HSBC offers a wide range of personal banking and other related financial services. Retail banking mainly focus to cater high net worth customers under "Select" proposition and corporate customers under Corporate Employee Privilege Scheme (CEPS) proposition.

As part of its financial services offered, 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.

2.3 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 provide solutions relating to the clients foreign exchange needs.

2.4 Financial Institutions Group: Financial Institutions Group is the client sector within Global Banking and 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 modern trade operation and robust technological platform, HSBC tries to ensure consistent and faster services to the customers in meeting their working capital requirements. Using 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 trade products in modernised and digitised methods.

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

2.6 Global Liquidity and Cash Management: Global Liquidity and Cash Management (GLCM) helps clients to optimise control over cash flows with our global payables, receivables and liquidity solutions coupled with online platform. 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 with conformity to local 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 formed and it is yet to issue financial reporting standards for public interest entities such as banks. The Bank Company 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 International Financial Reporting Standards (IFRS) as approved by the Institute of Chartered Accountants of Bangladesh (ICAB) are still applicable.

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

i) Investment in shares and securities

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

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

ii) Revaluation gains/losses on Government securities

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

Bangladesh Bank: 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

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

Bangladesh Bank: As per Department of Off-Site Supervision (DOS) Circular letter no. 08 dated 15 July 2010 and subsequent clarification in DOS circular no. 02 dated 23 January 2013, when a bank sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date (repo or stock lending), the arrangement is accounted for as a normal sales transaction and the financial asset is derecognised in the seller's book and recognised in the buyer's book.

iv) Provision on loans and advances/investments

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

Bangladesh Bank: As per BRPD circular 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), BRPD circular No. 05 (29 May 2013) and BRPD circular No.1 (20 February 2018) 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 specific provision for sub-standard loans, doubtful loans and bad losses has to be provided at 5%, 20%, 50% and 100% respectively for loans and advances depending on time past due. Again as per BRPD circular no. 10 dated 18 September 2007 and BRPD circular no. 14 dated 23 September 2012, a general provision at 1% is required to be provided for all off-balance sheet exposures. Such provision policies are not specifically in line with those prescribed by IFRS 9.

v) Recognition of interest in suspense

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

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

vi) Other comprehensive income

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

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

vii) Financial instruments – presentation and disclosure

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

viii) Financial guarantees

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

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

ix) Cash and cash equivalents

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

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

x) Non-banking assets

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

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

xi) Cash flow statement

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

Bangladesh Bank: As per BRPD 14, the cash flow statement is a mixture of both the direct and the indirect methods.

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

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

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

xiii) Presentation of intangible assets

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

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

xiv) Off-balance sheet items

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

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

xv) Loans and advances/Investments net of provision

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

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



FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Bangladesh Branches

3.2 Basis of measurement

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

All balances of all branches 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 both functional and presentation currency.

3.4 Use of estimates and judgments

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

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

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

- Provisions on loans and advances - as explained in note 4.3
- Income tax - as explained in note 4.20
- Post-employment benefits - defined benefit plan - as explained in note 4.18
- Allocation of head office expenses to the Bank
- Allocation of operating expenses to OBU

3.5 Reporting period

These financial statements cover one calendar year from 01 January 2018 to 31 December 2018. These financial statements are authorised for issue by management of the Bank on 18 February 2019.

3.6 Cash flow statement

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

3.7 Statement of changes in equity

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

3.8 Liquidity statements

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

4 Significant accounting policies

4.1 Foreign currencies

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

4.2 Loans and advances

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

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

4.3 Provisions on loans and advances

At each balance sheet date and periodically throughout the year, the Bank reviews loans and advances to assess whether objective evidence that impairment of a loan or portfolio of loans has arisen supporting a change in the classification of loans and advances, which may result in a change in the provision required in accordance with BRPD circular No.1 (20 February 2018), BRPD circular No.15 (27 September 2017), BRPD circular No.16 (18 November 2014), BRPD circular No.14 (23 September 2012), BRPD circular No. 19 (27 December 2012) and BRPD circular No. 05 (29 May 2013). The guidance in the circular follows a formulaic approach whereby specified rates are applied to the various categories of loans as defined in the circular. The provisioning rates are as follows:

General provision on:	2018	2017
Unclassified general loans and advances/investments	1.00%	1.00%
Unclassified small and medium enterprise financing	0.25%	0.25%
Unclassified loans/investment for housing finance and on loans for professionals	1.00%	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.

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 quarterly basis by management and certified by the Bank's external auditors on a semi-annual basis in accordance with Bangladesh Bank Foreign Exchange Policy Department (FEPD) circular No. 677 (13 September 2005).

4.6 Provisions for off balance sheet exposures

As per BRPD circular No.14 (23 September 2012) the Bank has recognised 1% General Provision on the following off balance sheet exposures as defined in BRPD circular No.10 (24 November 2002) considering the exemption as provided through BRPD circular No.01 (03 January 2018), BRPD circular No.7 (21 June 2018) and BRPD circular No.13 (18 October 2018).

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

4.7 Investments

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

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

In accordance with DOS circular No.05 (26 May 2008) and DOS circular 5 (28 January 2009) treasury securities held for Statutory Liquidity Ratio (SLR) compliance could be classified as either HTM or HFT. HTM securities which have not matured as at the balance sheet date are amortised at the year end and gains or losses on amortisation are recognised in other reserve as a part of equity. Coupon interest on HTM securities is recognised in profit and loss account. HFT securities are revalued on the basis of mark to market and at year end any gains on revaluation of securities which have not matured as at the balance sheet date are recognised in other reserves as a part of equity and any losses on revaluation of securities which have not matured as at the balance sheet date are charged in the profit and loss account. Interest on HFT securities including amortisation of discount are recognised in the profit and loss account.

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

4.8 Provisions for other assets

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

4.9 Fixed assets (Property, plant and equipment)

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

- Furniture and fixtures	10 years	10% pa
- Equipment	5 to 7 years	14.28% to 20% pa
- 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 IAS 38 the cost of purchased software which is not an integral part of the related hardware is booked under intangible assets. Intangible assets with finite useful life are amortised, generally on straight-line basis, over their useful lives as follows:

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

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

4.14 Capital adequacy

According to Sub-section 2 of Section 13 of the Bank Company Act 1991, as amended by BRPD circular No.11 (14 August 2008) and BRPD circular No. 18 (21 December 2014) all banks are required to maintain with Bangladesh Bank the higher of BDT 4 billion or the minimum capital requirement calculated as 10% of risk weighted assets (RWA). In addition to minimum capital requirement, Capital Conservation Buffer (CCB) at the rate of 1.875% 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 discontinuation of the employment contract.

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

4.20 Income tax

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

Current tax

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

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

Deferred tax

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

4.21 Reconciliation of inter-bank/inter-branch accounts

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

4.22 Contingent liabilities

As per IAS 37, contingent liability is:

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

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

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

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

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

4.23 New accounting standards not yet adopted

The Bank has consistently applied the accounting policies as set out in Note 4 to all periods presented in these financial statements. The various amendments to standards, including any consequential amendments to other standards, with the date of initial application of 1 January 2018 have been considered. However, these amendments have no material impact on the financial statements of the Bank.

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

A number of standards and amendments to standards are effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted. However, the Bank has not early applied the following new standards in preparing these financial statements.



FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Bangladesh Branches

(a) 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 shall implement IFRS 16 subject to Bangladesh Bank approval.

(b) IFRS 17 Insurance contract

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

(i) Cash in hand (including foreign currencies)

	2018 BDT	2017 BDT
Local currency	1,582,102,166	1,435,079,606
Foreign currencies	9,195,340	21,837,249
	<u>1,591,297,506</u>	<u>1,456,916,855</u>

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

Bangladesh Bank - Local currency	20,208,666,124	8,684,748,445
Bangladesh Bank Amanah - Local currency	5,000,000	30,000,000
Total - Local currency (Annexure - E)	<u>20,213,666,124</u>	<u>8,714,748,445</u>

Bangladesh Bank - Foreign currencies clearing and capital accounts (Annexure - E)	23,947,752,530	17,804,965,306
	<u>44,161,418,654</u>	<u>26,519,713,751</u>
	<u>45,752,716,160</u>	<u>27,776,630,606</u>

(iii) Cash Reserve Ratio and Statutory Liquidity Ratio

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

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

According to Monetary Policy Department (MPD) circular no.1 (03 April 2018), minimum average 5.5% CRR requirement on a bi-weekly basis and no less than 5% of average total demand and time liabilities (ATDTL) on any given day is to be complied. Based on ATDTL, SLR requirement is set at 13% for conventional and 5.5% for Islamic banking branch/windows respectively.

CRR and SLR requirements are calculated based on the ATDTL of two months prior to the reporting month (e.g. CRR and SLR requirements for the month of December 2018 has been calculated on the basis of ATDTL of the month of October 2018.

Portrayed below in note 5 (iv) and (v), based on the cash balances of period end and of the last two weeks of the financial year ended on 31 December 2018, the Bank demonstrates compliance with the CRR. In note 5 (vi), the Bank demonstrates compliance with the SLR based on period end cash balances of the financial year ended on 31 December 2018.

(iv) Cash Reserve Ratio (CRR): Daily 5.00% (2017: 6.00%) of average total demand and time liabilities including Amanah

	2018 BDT	2017 BDT
Required reserve	5,848,569,114	6,414,564,064
Actual reserve held with Bangladesh Bank	<u>20,393,571,633</u>	<u>8,858,334,588</u>
Surplus	<u>14,545,002,519</u>	<u>2,443,770,524</u>

(v) Cash Reserve Ratio (CRR): Bi-weekly 5.50% (2017: 6.50%) of average total demand and time liabilities including Amanah

Required reserve	<u>6,433,426,026</u>	<u>6,949,111,069</u>
Bi-weekly average reserve held with Bangladesh Bank (Annexure - D)	<u>17,284,692,998</u>	<u>8,300,894,194</u>
Surplus	<u>10,851,266,972</u>	<u>1,351,783,125</u>

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

Required reserve	<u>15,206,279,698</u>	<u>13,897,278,318</u>
Actual reserve held with Bangladesh Bank	<u>44,041,503,350</u>	<u>34,769,423,246</u>
Surplus	<u>28,835,223,652</u>	<u>20,872,144,928</u>

6 Balance with other banks and financial institutions

In Bangladesh - current account		
IFIC Bank Limited	-	1,229
Sonali Bank local office	54,121,011	45,545,152
United Commercial Bank	1,071,727	986,000
Standard Chartered Bank	446,156	39,982,040
Pubali Bank Limited	<u>50,000,000</u>	-
	<u>105,638,894</u>	<u>86,514,421</u>

Short term deposit		
IFIC Bank Limited	12,270,525	11,953,231
Prime Bank Limited	4,569,775	4,555,170
Sonali Bank	27,411,331	26,615,240
United Commercial Bank	<u>4,672,452</u>	<u>4,571,543</u>
	<u>48,924,083</u>	<u>47,695,184</u>
	<u>154,562,977</u>	<u>134,209,605</u>

Outside Bangladesh - current account		
HSBC Hong Kong	20,716,281	9,619,933
HSBC Hong Kong Global ATM settlement account	18,518,044	5,919,601
HSBC Hong Kong	3,233,153	3,815,793
Settlement account with HSBC Hong Kong	172,453,743	70,495,580
HSBC Japan	5,282,883	28,961,170
HSBC Singapore	887,808	5,808,556
HSBC Bank Canada	1,437,999,096	566,655,033
Credit Suisse AG Switzerland	74,717,976	6,274,508
HSBC Bank PLC UK	118,150,813	164,516,807
HSBC Bank USA	1,300,360,536	923,719,949
SCB Pakistan	70,262,248	218,957,944
HSBC Sri Lanka	204,804,267	131,916,049
HSBC Bank Australia TT account	621,296	378,445
HSBC Bank Australia DD account	26,271	783,814
HSBC Bank Canada	1,534,613	2,439,914
HSBC France	608,880,189	-
Danske Bank Denmark	50,475	73,060
HSBC Bank PLC UK	545,135,563	149,965,082
HSBC Bank India	65,943,865	68,456,031
HSBC Dubai	<u>317,695</u>	<u>593,913</u>
(For detail see Annexure - B)	<u>4,649,897,315</u>	<u>2,359,351,182</u>
	<u>4,804,460,292</u>	<u>2,493,560,787</u>

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

	2018 BDT	2017 BDT
Current account (including foreign currency nostro)	4,755,536,209	2,445,865,603
Short term deposit account	<u>48,924,083</u>	<u>47,695,184</u>
	<u>4,804,460,292</u>	<u>2,493,560,787</u>

6.2 Maturity grouping of balance with other banks and financial institutions

Payable on demand	4,755,536,209	2,445,865,603
Payable within one month	48,924,083	47,695,184
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	-	-
	<u>4,804,460,292</u>	<u>2,493,560,787</u>

7 Money at call on short notice

Deposit with banks:		
The City Bank Limited	-	380,000,000
Pubali Bank Limited	-	240,000,000
BRAC Bank Limited	-	690,000,000
	-	<u>1,310,000,000</u>

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	494,039,844	7,558,466
364 day Treasury bills	5,326,902,823	4,215,017,524
2 year Government bonds	999,859,615	1,207,542,113
5 year Government bonds	<u>1,092,398,696</u>	<u>3,278,371,335</u>
	<u>7,913,200,978</u>	<u>10,553,372,989</u>

Held for Trading Securities (HFT)		
7 day Bangladesh Bank bills	-	4,298,788,592
14 day Treasury bills	2,498,965,203	-
91 day Treasury bills	4,492,672,016	-
182 day Treasury bills	3,583,883,835	-
364 day Treasury bills	5,851,342,176	12,812,659,168
2 year Government bonds	3,300,229,019	3,386,935,870
5 year Government bonds	<u>849,767,005</u>	<u>351,526,256</u>
	<u>20,576,859,255</u>	<u>20,849,909,886</u>

Prize bonds	<u>2,002,900</u>	<u>1,643,900</u>
Government securities (HTM, HFT, Prize bonds)	<u>28,492,063,133</u>	<u>31,404,926,775</u>

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
	<u>6,000,000</u>	<u>6,000,000</u>
	<u>28,498,063,133</u>	<u>31,410,926,775</u>

8.1 Maturity grouping of investments

Payable on demand	2,002,900	1,643,900
Payable within one month	13,300,085,022	7,907,584,707
More than one month but less than three months	2,848,087,310	2,105,847,527
More than three month but less than one year	12,341,887,901	15,962,153,472
More than one year but less than five years	-	5,427,697,169
More than five years	<u>6,000,000</u>	<u>6,000,000</u>
	<u>28,498,063,133</u>	<u>31,410,926,775</u>

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 transaction of repo and reverse repo

	Minimum Outstanding BDT	Maximum Outstanding BDT	Daily Average Outstanding BDT
2018			
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	-	-	-
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	-	-	-

9 Loans and advances

	2018 BDT	2017 BDT
Loans, cash credits, overdrafts:		
In Bangladesh:		
Staff loans	1,148,661,660	1,219,675,962
Home mortgage loans	1,770,872,388	2,254,032,364
Car loans	5,400,806	5,232,321
Personal loans	3,175,943,876	3,887,282,316
Overdraft for retail	268,405,403	270,902,477
Overdraft for corporate	5,534,640,703	5,010,978,823
Term loans	13,168,622,301	8,563,322,204
Import loans	18,980,565,029	12,615,695,524
Working Capital	<u>37,997,940,380</u>	<u>34,080,598,289</u>
	<u>82,051,052,546</u>	<u>67,907,720,280</u>
Outside Bangladesh:	-	-
	<u>82,051,052,546</u>	<u>67,907,720,280</u>
Bills purchased and discounted (note 9.10)	<u>1,194,585,309</u>	<u>333,554,131</u>
	<u>83,245,637,855</u>	<u>68,241,274,411</u>

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

Payable on demand	2,176,840,924	688,779,982
Payable within one month	14,540,707,621	17,617,180,417
More than one month but less than three months	21,190,007,424	13,870,084,637
More than three months but less than one year	28,519,497,158	22,044,414,753
More than one year but less than five years	14,027,732,107	11,071,135,157
More than five years	<u>2,790,812,621</u>	<u>2,949,679,465</u>
	<u>83,245,637,855</u>	<u>68,241,274,411</u>

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

	2018 BDT	2017 BDT
Advances to allied concerns of directors	-	-
Advances to the chief executive officer	-	-
Advances to other senior executives and staff of the Bank	1,148,661,660	1,219,675,962
Advances to customers' group	25,395,772,810	19,366,699,132
Industrial advances	<u>56,701,203,385</u>	<u>47,654,899,317</u>
	<u>83,245,637,855</u>	<u>68,241,274,411</u>

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	92	74
Amount of outstanding advances	<u>38,501,171,660</u>	<u>25,969,853,942</u>
Amount of classified advances	-	-

9.4 Cash collateral against total outstanding loans and advances as at 31 December	<u>3,484,980,066</u>	<u>2,195,753,716</u>
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9.5 Loans and advances including bills purchased and discounted		
Loans	77,442,591,748	62,959,393,112
Overdrafts	<u>5,803,046,107</u>	<u>5,281,881,299</u>
	<u>83,245,637,855</u>	<u>68,241,274,411</u>

9.6 Particulars of loans and advances industry-wise classification		
Readymade garments	13,509,078,870	9,224,527,537
Textile industries	10,579,145,186	5,800,787,315
Agriculture and agro processing	16,302,502,948	12,815,664,967
Steel and metal	6,488,984,593	5,714,676,079
Leather and leather products	-	438,068
Trade	1,917,064,125	1,785,428,844
Chemical and pharmaceuticals	6,613,811,668	6,944,017,010
Petroleum and coal products	275,045,489	283,211,146
Cement industries	4,566,645,703	5,016,522,358
Telecommunication	4,006,885,417	3,506,062,500
Non Government Organization (NGO)	1,860,941,942	1,632,476,386
Power and energy	877,679,281	742,188,910
Retail loans	5,220,622,474	6,417,449,477
Staff loans	1,148,661,660	1,219,675,962
Others	<u>9,878,568,499</u>	<u>7,138,147,852</u>
	<u>83,245,637,855</u>	<u>68,241,274,411</u>

9.7 Classification of loans and advances		
Unclassified:		
Standard	81,706,514,172	66,599,118,858
Special Mention Account	<u>63,265,055</u>	<u>68,910,957</u>
	81,769,779,227	66,668,029,815
Classified:		
Substandard	170,055,974	219,594,196
Doubtful	28,974,502	30,522,795
Bad/Loss	<u>1,276,828,152</u>	<u>1,323,127,605</u>
	<u>1,475,858,628</u>	<u>1,573,244,596</u>
	<u>83,245,637,855</u>	<u>68,241,274,411</u>

9.8 Particulars of loans and advances		
i) Loans considered good in respect of which the Bank is fully secured;	79,409,627,445	64,263,636,218
ii) Loans considered good against which the Bank holds no security other than the debtor's personal guarantee;	2,687,348,749	2,757,962,231
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;	1,148,661,660	1,219,675,962
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;	1,148,661,660	1,219,675,962
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)	45,783,500	(3,782,942)
Amount of loans written off	229,811,807	184,493,595
Amount realised against the loan previously written off	45,711,521	15,179,191
b) Provision on classified loans and advances (For movement see note 14.3)	720,084,005	674,300,505
c) Interest creditable to the interest suspense account (note 14.4)	361,143,504	394,035,137
xi) Cumulative amount of written off loans		
Opening balance	2,227,385,786	2,042,892,191
Amount written off during the year	<u>229,811,807</u>	



FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Bangladesh Branches

10 Fixed assets including premises, furniture and fixtures

	Furniture and fixtures	Equipment	Motor vehicles	Computers	Total
2018	BDT	BDT	BDT	BDT	BDT
Cost					
Balance as at 1 January	274,375,885	741,651,897	67,377,147	344,506,574	1,427,911,503
Addition during the year	2,435,016	41,870,542	31,997,997	20,902,980	97,206,535
Disposals/adjustment	(15,262,855)	(70,344,977)	(41,248,430)	-	(126,856,262)
Balance as at 31 December	261,548,046	713,177,462	58,126,714	365,409,554	1,398,261,776
Accumulated Depreciation and impairment charges					
Balance as at 1 January	191,919,006	579,876,688	54,830,498	267,441,822	1,094,068,014
Depreciation charge for the year	40,742,095	63,713,943	9,577,970	525,026	114,559,034
Disposals/adjustments	(14,971,910)	(65,318,177)	(22,918,451)	-	(103,208,538)
Balance as at 31 December	217,689,191	578,272,454	41,490,017	267,966,848	1,105,418,510
Net book value as at 31 December 2018	43,858,855	134,905,008	16,636,697	97,442,706	292,843,266
2017					
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

Costs of BDT 34,092,100 (2017: BDT 50,429,200), accumulated depreciation of BDT 32,387,495 (2017: BDT 40,043,150) and net book value of BDT 1,704,605 (2017: BDT 10,386,050) 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

Classification of other assets	2018 BDT	2017 BDT
a) Income generating other assets		
Offshore Unit, Dhaka (2017: USD52,500,000)	-	4,341,377,250
	-	4,341,377,250
b) Non-income generating other assets		
Offshore Unit, Dhaka (2018: USD19,808,221; 2017: USD25,779,374)	1,652,940,542	2,131,771,198
Stamp in hand	4,364,437	1,666,795
Intangible assets (note 11.1)	8,359,093	8,951,514
Other debtors (note 11.2)	181,500,452	61,157,512
Deferred tax (note 11.3)	254,372,901	313,283,126
Rent paid in advance	357,625,741	418,483,119
Other prepayments	87,797,297	89,664,504
Refundable deposits	4,574,412	4,603,214
Accrued interest on Bangladesh Bank foreign currency capital and clearing account	35,966,118	14,742,292
Accrued coupon interest on Bangladesh government treasury bond	180,810,409	262,048,229
Interest on balance with other banks and financial institutions	-	1,743,987
Commission receivable	104,500,868	76,437,364
Encashment of Bangladesh Sanchayapatra awaiting for reimbursement from Bangladesh Bank	2,196,715,894	1,306,417,222
Net surplus asset of defined benefit schemes (Note 24.2)	98,742,872	-
Unrealised gain on foreign exchange contracts	19,635,829	10,388,876
	5,187,906,865	4,701,358,952
	5,187,906,865	9,042,736,202

11.1 Intangible assets (Purchased software)

Cost		
Balance as at 1 January	47,412,554	50,277,137
Acquisition during the year	7,140,160	2,912,415
Disposals/adjustment	(5,753,776)	(5,776,998)
Balance as at 31 December	48,798,938	47,412,554
Accumulated amortisation		
Balance as at 1 January	38,461,040	35,396,804
Charge for the year	7,732,581	8,841,234
Disposals/adjustment	(5,753,776)	(5,776,998)
Balance as at 31 December	40,439,845	38,461,040
Net book value as at 31 December	8,359,093	8,951,514

11.2 Other debtors

Petty cash	110,000	110,000
Security charges recoverable	-	24,815,849
Recoverable interest on deposits	2,500,000	-
Others	178,890,452	36,231,663
	181,500,452	61,157,512

11.3 Deferred tax

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

	Deferred tax assets	Deferred tax liabilities	Net deferred tax
	2018 BDT	2017 BDT	2018 BDT
Specific provisions on loans and advances	125,866,613	131,726,334	-
Fixed assets	93,458,034	89,046,239	-
Intangible assets	482,379	-	(1,191,341)
Actuarial (gain)/losses	35,805,211	88,170,695	-
Unrealised interest on amortisation of HTM securities	-	5,531,199	(1,239,336)
Unrealised interest on revaluation of HFT securities	-	-	-
Total	255,612,237	314,474,467	(1,239,336)

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 IAS 12, the Bank recognises the deferred tax on specific provision which creates a deductible temporary difference to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised.

The deferred tax will be reversed as soon as the related bad loan is either recovered or written off. Though the expected time frame of recovery is unknown, the bad loans must be written off within 5 years of being classified as per the central bank directives. So the deferred tax is expected to be reversed within five years. The following table shows the year of origin that the Bank recognised the deferred tax assets on such specific provision. The amount recognised and realised in the current year profit and loss is shown in the note 11.4.

Year of loan classification	Year of deferred tax recognition	Deferred tax amount
		2018 BDT
2011	2012	15,004,537
2013	2014	110,862,076
Total		125,866,613

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

11.4 Movement of deferred tax

	2018 BDT	2017 BDT
Balance as at 1 January	313,283,126	295,653,703
(Charge)/credit to profit and loss account (note 11.4.1)	13,142,337	18,644,835
(Charge)/credit to profit and loss account - opening balance adjustment due to corporate tax rate change to 40% from 42.50% during 2018 (Note 11.4.1)	(12,916,543)	-
(Charge)/credit to reserves (note 11.4.2)	(53,624,143)	(1,015,412)
(Charge)/credit to reserves - opening balance adjustment due to corporate tax rate change to 40% from 42.50% during 2018 (Note 11.4.2)	(5,511,876)	-
Balance as at 31 December	254,372,901	313,283,126

11.4.1 Deferred tax (charged)/credited to profit and loss account

	Difference between tax depreciation and accounting depreciation (fixed assets)	Difference between tax amortisation and accounting amortisation (intangible assets)	Specific provision on loans and advances	Total
	BDT	BDT	BDT	BDT
2018				
Balance as at 1 January	89,046,239	(1,191,341)	131,726,334	219,581,232
(Charge)/credit to profit and loss account	9,649,809	1,603,641	1,888,887	13,142,337
(Charge)/credit to profit and loss account - opening balance adjustment due to corporate tax rate change to 40% from 42.50% during 2018 (Note 11.4)	(5,238,014)	70,079	(7,748,608)	(12,916,543)
Balance as at 31 December	93,458,034	482,379	125,866,613	219,807,026
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

11.4.2 Deferred tax (charged)/credited to reserves

	Actuarial gains/(losses)	Unrealised interest on revaluation of HTM securities	Unrealised interest on revaluation of HFT securities	Total
	BDT	BDT	BDT	BDT
2018				
Balance as at 1 January	88,170,695	5,531,199	-	93,701,894
(Charge)/credit to reserves	(47,178,973)	(6,445,170)	-	(53,624,143)
(Charge)/Credit to reserves - opening balance adjustment due to corporate tax rate change to 40% from 42.50% in last year (Note 11.4)	(5,186,511)	(325,365)	-	(5,511,876)
Balance as at 31 December	35,805,211	(1,239,336)	-	34,565,875
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	-	93,701,894

12 Borrowings from other banks, financial institutions and agents

	2018 BDT	2017 BDT
In Bangladesh:		
Term borrowings (note 12.1)	9,195,333,401	5,439,095,546
Other deposits-vostro account (note 12.2)	64,324,279	813,061,336
	9,259,657,680	6,252,156,882
Outside Bangladesh:	-	-
	9,259,657,680	6,252,156,882

12.1 Term borrowings

Foreign currency borrowing from Bangladesh Bank under export development funds	9,195,333,401	5,439,095,546
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12.2 Other deposits - Vostro account

	2018 BDT	2017 BDT
Bank of New York, New York	142	142
Deutsche Bank AG, London	332,348	54,858,554
HSBC Bank plc, London	60,607,741	270,004,630
Pershing LLC, New Jersey	91,018	91,018
Prime Bank, Dhaka	99,240	99,240
United Commercial Bank Limited, Dhaka	-	5,430
Pubali Bank Limited, Dhaka	595,064	590,440
IFIC Bank, Dhaka	1,900,854	-
HSBC Bank, Hong Kong	-	484,114,947
HSBC Bank, Singapore	697,872	3,296,935
	64,324,279	813,061,336

12.3 Classification based on type of security

Secured	-	-
Unsecured	9,259,657,680	6,252,156,882
	9,259,657,680	6,252,156,882

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

Payable on demand	63,729,215	812,470,896
Payable within one month	1,108,548,928	260,488,906
More than one month but less than three months	2,381,197,443	1,138,062,663
More than three months but less than one year	5,706,182,094	4,041,134,417
More than one year but less than five years	-	-
Over five years	-	-
	9,259,657,680	6,252,156,882

13 Deposits and other accounts

Current deposits and other accounts:		
Current account	33,061,871,197	34,478,436,080
Sundry deposits*	6,812,221,513	6,455,060,844
	39,874,092,710	40,933,496,924
Bills payable:		
Cashiers order issued	514,748,137	767,868,062
Drawings payable	1,940,930,631	1,216,039,438
	2,455,678,768	1,983,907,500
Saving deposits	19,871,514,757	12,396,346,924
Term deposits:		
Short term deposits	17,109,743,549	11,108,648,230
Term deposits	38,509,497,064	31,407,253,895
	55,619,240,613	42,515,902,125
	117,820,526,848	97,829,653,473

* Sundry deposits include BDT76,792,573 which had remained unclaimed for more than 10 years as of 31 December 2018. As per BRPD circular No. 10 (12 September 2018) unclaimed deposits for 10 years or more are required to deposit to the Bangladesh Bank by April of the following year. Accordingly, the unclaimed amount will be deposited to Bangladesh Bank by April 2019.

13.1 Maturity analysis of deposits and other accounts

	2018 BDT	2017 BDT
Payable on demand	77,746,271,783	53,295,229,504
Payable within one month	4,212,035,034	15,562,760,145
More than one month but less than three months	11,833,196,338	6,937,119,157
More than three months but less than one year	21,873,410,540	16,618,741,565
More than one year but less than five years	2,155,613,153	5,335,371,067
Over five years	-	80,432,035
	117,820,526,848	97,829,653,473

14 Other liabilities

Offshore Banking Unit, Dhaka (USD10,000,000)	834,472,000	-
Accrued interest on customer deposits and borrowings	1,402,257,099	1,034,865,185
Deferred income	168,648,041	168,454,827
Obligation under finance lease - principal only (note 14.1)	2,328,037	13,378,687
Provisions for liabilities and charges (note 14.2)	861,943,978	780,368,560
Other creditors	299,894,624	387,350,060
Items in course of transmission	1,294,672,164	637,999,482
Provision for loans and advances and off balance sheet exposures (note 14.3)	3,549,817,140	3,177,900,233
Interest suspense account (note 14.4)	361,143,504	394,035,137
Interest received on non performing advances	386,841,599	287,779,219
Provision for taxation (note 14.5)	797,178,788	519,108,028
Net liability of defined benefit schemes (note 24.2)	-	17,181,548
Unrealised loss on foreign exchange contracts	35,454,228	27,074,961
	9,994,651,202	7,445,495,927

14.1 Obligation under finance leases

	Total future minimum payments BDT	Future interest charges BDT	Present value of finance lease obligation BDT
2018			
Lease obligation:			
Within one year	2,383,799	(55,762)	2,328,037
More than one year but less than five years	-	-	-
More than five years	-	-	-
	<u>2,383,799</u>	<u>(55,762)</u>	<u>2,328,037</u>



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Bangladesh Branches

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

	2018 BDT	2017 BDT
Required general provision		
On loans and advances at 0.25% to 5% under different categories of unclassified loans/investments (standard/SMA)	964,373,536	868,734,233
On off balance sheet exposures @ 1%	1,865,359,599	1,634,865,495
	<u>2,829,733,135</u>	<u>2,503,599,728</u>
Required specific provision		
On substandard loans and advances/investments other than agricultural loans @ 20%	9,185,097	13,795,879
On doubtful loans and advances/investment other than agricultural loans @ 50%	5,897,883	9,613,058
On substandard and doubtful agricultural loans @ 5%	-	-
On bad/loss and advances/investments @ 100%	705,001,025	650,891,568
	<u>720,084,005</u>	<u>674,300,505</u>
Total required provision	<u>3,549,817,140</u>	<u>3,177,900,233</u>
Total maintained provision	<u>3,549,817,140</u>	<u>3,177,900,233</u>
Surplus/(Shortfall)	-	-

14.4 Interest suspense account

Balance as at 1 January	394,035,137	304,114,280
Recoveries during the year	(127,319,932)	(36,363,960)
Written off during the year	(21,039,199)	(79,503,286)
Provision made during the year	115,467,498	205,788,103
Balance as at 31 December	<u>361,143,504</u>	<u>394,035,137</u>

14.5 Provision for tax net of advance income tax paid

Provision for tax		
Balance as at 1 January	3,512,396,489	3,742,116,977
Provision made during the year		
Onshore unit	2,375,688,268	2,233,225,723
Offshore unit	916,833,496	973,637,977
	<u>3,292,521,764</u>	<u>3,206,863,700</u>
Adjustments made during the year		
Onshore unit	(2,233,225,723)	(2,590,165,000)
Offshore unit	(973,637,977)	(846,419,188)
	<u>(3,206,863,700)</u>	<u>(3,436,584,188)</u>
Balance as at 31 December	<u>3,598,054,553</u>	<u>3,512,396,489</u>

Advance income tax paid		
Balance as at 1 January	2,993,288,461	3,420,571,220
Amount paid during the year	2,861,011,433	2,992,945,916
Adjustments made during the year	(3,053,424,129)	(3,420,228,675)
Balance as at 31 December	<u>2,800,875,765</u>	<u>2,993,288,461</u>
Net provision	<u>797,178,788</u>	<u>519,108,028</u>

Provision for income tax is on the basis of applicable income tax regulations of Bangladesh. Tax return for the financial year ended 31 December 2018 is expected to be filed with the tax authorities by the due date of 15 September 2019.

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.

The assessment for the accounting years 2006, 2007, 2009, 2010, 2011, 2012, 2013 and 2014 are yet to be finalised. The tax authorities have not accepted the Bank's excess profit computation for the above mentioned period on the grounds that they do not consider various other components, including retained earnings to be part of capital of the Bank.

For accounting year 2006, 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 believes 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 Company Act 1991. During 2013, there were some additional explanation included in the said act relating to the definition of capital and subsequently Bangladesh Bank has also provided some additional clarification to National Board of Revenue on the issue. Management believes both of these have strengthened the bank's tax position as stated above. The Bank's legal counsel has the same opinion. Hence no provision is made for the same. This is notable that the "Excess Profit Tax" related section 16C of the Income Tax Ordinance 1984 has been omitted by Finance Act 2016.

15 Capital

	2018 BDT	2017 BDT
Fund deposited with Bangladesh Bank at 1 January	3,072,581,767	2,934,634,949
Exchange difference: (USD 35,938,625 × 83.4472-82.6929); (2017: 82.6929-78.8545)	27,108,505	137,946,818
Funds deposited with Bangladesh Bank at 31 December	<u>3,099,690,272</u>	<u>3,072,581,767</u>

16 Other reserves

Unrealised interest on amortisation of HTM securities		
Opening balance	(7,483,386)	(57,572,284)
Opening balance adjustment due to corporate tax rate change to 40% from 42.50% during 2018	(325,365)	-
Unrealised interest on amortisation of HTM securities during this year	6,344,777	(8,245,569)
Unrealised interest on amortisation of HTM securities realised during this year	9,768,148	95,356,694
	<u>15,787,560</u>	<u>87,111,125</u>
Deferred tax liabilities (note 11.4.2)	(6,445,170)	(37,022,227)
	<u>9,342,390</u>	<u>50,088,898</u>
	<u>1,859,004</u>	<u>(7,483,386)</u>
Unrealised interest on revaluation of HFT securities		
Opening balance	-	588,599
MTM reserve for HFT during this year	-	-
MTM reserve for HFT realised during this year	-	(1,023,651)
	-	(1,023,651)
Deferred tax assets/(liabilities) (note 11.4.2)	-	435,052
	-	(588,599)
	-	-
Actuarial gain/(loss):		
Opening balance	(119,289,762)	(71,163,260)
Opening balance adjustment due to corporate tax rate change to 40% from 42.50% during 2018	(5,186,511)	-
Actuarial gain/(loss) during this year (note 24.2.4)	117,947,432	(83,698,265)
Less: Deferred tax assets (note 11.4.2)	(47,178,973)	35,571,763
	<u>65,581,948</u>	<u>(48,126,502)</u>
	<u>(53,707,814)</u>	<u>(119,289,762)</u>
	<u>(51,848,810)</u>	<u>(126,773,148)</u>

17 Profit and loss account

Opening balance	26,335,857,369	22,995,892,589
Profit for the year	3,076,049,478	3,339,964,780
Profit remitted to head office	(1,752,956,468)	-
Closing balance	<u>27,658,950,379</u>	<u>26,335,857,369</u>

18 Contingent liabilities

	2018 BDT	2017 BDT
Acceptances and endorsements	87,675,262,477	71,300,858,731
	<u>87,675,262,477</u>	<u>71,300,858,731</u>
Letters of guarantee:		
Money for which the Bank is contingently liable in respect of guarantees given favouring Government Bank and other financial institutions	41,713,761,971	28,174,653,332
Others	240,075,658	38,402,368
	<u>14,765,582,427</u>	<u>1,930,553,894</u>
	<u>56,719,420,056</u>	<u>30,143,609,594</u>
Others		
Irrevocable letters of credit	65,888,926,453	74,176,407,128
Foreign exchange contracts - spot and forward	5,094,357,828	3,357,031,546
	<u>70,983,284,281</u>	<u>77,533,438,674</u>
	<u>215,377,966,814</u>	<u>178,977,906,999</u>

19 Interest income and profit received

Staff loans	47,559,668	50,280,171
Home mortgage loans	176,208,684	210,084,838
Car loans	116,855	1,044,599
Personal loans	364,233,686	479,611,175
Overdraft	382,895,667	304,242,163
Term loans	1,062,401,886	795,093,618
Import loans	1,200,305,590	874,095,097
Working Capital	3,340,860,645	2,032,172,447
Export and import bills	51,895,944	19,019,605
Income from money market	45,407,278	44,333,841
Income from Offshore Banking Unit (OBU)	6,057,529	70,497,824
Other correspondent bank	1,432,387	1,468,359
Income from nostro accounts	143,118	175,596
Income from Bangladesh Bank foreign currency account	396,710,826	103,741,260
	<u>7,076,229,753</u>	<u>4,985,860,593</u>

20 Interest and profit paid on deposits and borrowings

Saving accounts	578,172,404	134,641,676
Term deposits	1,364,642,403	1,151,762,127
Marginal deposit	13,092,858	9,602,143
Interest paid on finance lease	1,123,709	2,705,483
Interest on vostro and overdrawn nostro	370,526	178,587
Money market call borrowing	272,917	1,829,722
Money market term borrowing	284,386,862	178,849,763
Interest on borrowing from OBU	343,790	10,457
	<u>2,242,405,469</u>	<u>1,479,579,958</u>

21 Income from investment

Interest on treasury bills/bonds	1,081,863,045	573,361,085
Interest on Bangladesh Bank bills	46,905,335	898,832,923
Dividend on shares	7,500,000	15,000,000
	<u>1,136,268,380</u>	<u>1,487,194,008</u>

22 Commission, exchange and brokerage

Exchange income/loss	1,046,509,884	1,390,505,774
Commission income:		
Import LC	1,776,306,881	1,766,235,989
Export LC	199,768,251	188,043,819
Remittances	15,993,061	18,006,490
Account services	40,024,703	45,703,128
Credit facilities	201,171,501	144,709,772
Collection bills	309,612	551,835
Global custody	95,538,858	94,348,913
Other commissions and charges	119,919,443	114,731,346
	<u>2,449,032,310</u>	<u>2,372,331,292</u>
Commission paid	(33,049,548)	(35,468,451)
	<u>2,415,982,762</u>	<u>2,336,862,841</u>
	<u>3,462,492,646</u>	<u>3,727,368,615</u>

23 Other operating income

Profit/(loss) on disposals of fixed assets	14,364,877	3,407,412
Other income	20,959,379	24,516,280
	<u>35,324,256</u>	<u>27,923,692</u>

24 Salaries and allowances

Short term employee benefits		
Basic salary	1,051,747,530	975,220,515
Allowances	553,538,771	535,698,598
Bonus	446,973,420	434,894,267
Others	336,226,701	263,049,550
	<u>2,388,486,422</u>	<u>2,208,862,930</u>
Long term employee benefits		
Bonus	7,414,662	7,007,823
	<u>7,414,662</u>	<u>7,007,823</u>
Post employment benefits		
Contribution to the defined benefit plan (note 24.1)	107,009,000	86,284,991
Contribution to the defined contribution plan	85,341,793	82,062,451
	<u>192,350,793</u>	<u>168,347,442</u>
	<u>2,588,251,877</u>	<u>2,384,218,195</u>

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

Current service cost	107,547,000	99,094,000
Interest cost	58,244,000	(8,372,009)
Expected returns on plan assets	(60,805,000)	-
Past service cost	2,023,000	(4,437,000)
Contribution to the defined benefit plan (note 24)	<u>107,009,000</u>	<u>86,284,991</u>

24.2 Net assets/(liabilities) 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)	<u>98,742,872</u>	<u>(17,181,548)</u>
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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.

	2018 BDT	2017 BDT
Fair value of plan assets (note 24.2.3)		
Balance with Bank	1,022,360,872	836,320,452
	<u>1,022,360,872</u>	<u>836,320,452</u>
Defined benefit obligation (note 24.2.2)		
Present value of funded obligations	923,618,000	853,502,000
Present value of unfunded obligations	-	-
	<u>923,618,000</u>	<u>853,502,000</u>
Net assets/(liabilities)	<u>98,742,872</u>	<u>(17,181,548)</u>

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

	2018 BDT	2017 BDT
At 1 January	853,502,000	745,438,000
Current service cost	107,547,000	99,094,000
Interest cost	58,244,000	54,341,000
Actuarial (gains)/losses	(56,163,000)	51,306,000
Experience (gains)/losses	33,685,864	(23,256,380)
Past service cost	2,023,000	(4,437,000)
Benefits paid	(75,220,864)	(68,983,620)
At 31 December (note 24.2.1)	<u>923,618,000</u>	<u>853,502,000</u>

24.2.3 Changes in the fair value of plan assets

At 1 January	836,320,452	807,517,722
Expected returns on plan assets	60,805,000	62,713,000
Contributions by the Bank	104,985,988	90,721,995
Actuarial gains/(losses)	95,470,296	(55,648,645)
Experience (gains)/losses	-	-
Benefits paid	(75,220,864)	(68,983,620)
At 31 December (note 24.2.1)	<u>1,022,360,872</u>	<u>836,320,452</u>

24.2.4 Summary

Defined benefit obligations (note 24.2.2)	(923,618,000)	(853,502,000)
Fair value of plan assets (note 24.2.3)	1,022,360,872	836,320,452
Net assets/(liabilities)	<u>98,742,872</u>	<u>(17,181,548)</u>

Actuarial (gains)/losses due to experience and assumptions (note 24.2.2 and 24.2.3)	(151,633,296)	106,954,645
Experience (gains)/losses (note 24.2.2 and 24.2.3)	33,685,864	(23,256,380)
Total net actuarial (gains)/losses (note 16)	<u>(117,947,432)</u>	<u>83,698,265</u>

25 Legal and professional expenses

Legal expenses	6,168,741	6,344,953
Other professional charges	25,445,603	120,260,396
	<u>31,614,344</u>	<u>126,605,349</u>

26 Auditors' fee

Statutory audit - current year	1,200,000	1,200,000
	<u>1,200,000</u>	<u>1,200,000</u>

27 Depreciation, impairment and repair of Bank's assets

Repair and maintenance	250,009,257	302,012,175
Depreciation on fixed assets (note 10)	114,559,034	124,717,613
Amortisation of intangible assets (note 11.1)	7,732,581	8,841,234
	<u>372,300,872</u>	<u>435,571,022</u>

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

Charitable donation	25,220,416	34,123,230
Subscription of corporate member fees	5,676,860	4,188,497
Training expenses	73,960,775	56,676,053
Entertainment expenses	22,760,390	16,664,030
Staff entertainment expenses	26,081,758	25,978,279
Outsource service cost	125,121,140	90,069,269
Security expenses	96,508,814	106,715,513
Staff recruitment costs	1,158,430	370,580
Transportation and conveyance expenses	25,226,695	13,356,094
Staff uniform	1,291,425	1,698,496
Generator and motor vehicles fuel and other expenses	5,994,269	4,441,990
Other office expenses	152,923,084	90,756,096
	<u>561,924,056</u>	<u>445,038,127</u>

30 Tax

Profit before tax	5,298,072,381	5,538,190,155
Notional tax on profit before tax, calculated at the rates of statutory tax rate @ 40%	2,119,228,952	2,353,730,816
Deferred tax (charge)/release	(225,794)	(18,644,835)
Tax charge/(release) for prior year	(153,439,571)	(16,355,513)
Tax effect on allowable/non-allowable expenses	256,459,316	(120,505,093)
	<u>2,222,022,903</u>	<u>2,198,225,375</u>

31 Capital adequacy under Basel III

Total Risk Weighted Assets (RWA) as on 31 December	124,620,548,9
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FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Bangladesh Branches

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 offers Shariah compliant products and services in Bangladesh. Under the restructuring procedure, the existing books of Amanah business will run-off up to the maturity as per Bangladesh Bank approval letter ref no. BRPD (P-3)745(37)/2013-1693 dated 10 April 2013.

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

33.1 Amanah Balance Sheet as at 31 December

	2018 BDT	2017 BDT
Assets		
Cash in hand	-	-
Balance with Bangladesh Bank	5,000,000	30,000,000
Investments	339,915,908	414,742,128
Fixed assets	-	-
Other assets	73,255,409	-
	<u>418,171,317</u>	<u>444,742,128</u>
Liabilities		
Placement from banks and other financial institutions	-	-
Deposits and other accounts	14,883,249	14,486,511
Other liabilities	37,486,293	69,935,716
Retained earnings	365,801,775	360,319,901
	<u>418,171,317</u>	<u>444,742,128</u>
Off balance sheet items		
Acceptances and endorsements	-	-
Letters of guarantee	-	-
Irrevocable letters of credit	-	-
Foreign exchange contracts - Spot and Forward	-	-
	<u>-</u>	<u>-</u>

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

Income from investments	37,806,243	47,137,143
Profit paid on deposits	(1,415)	(137)
Net investment income	37,804,828	47,137,006
Commission, exchange and brokerage	-	-
Other operating income	738,571	949,005
Total operating income	38,543,399	48,086,011
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	38,543,399	48,086,011
Specific provision for classified investments	(4,593,932)	11,280,546
General provision for unclassified investments and off balance sheet exposures	(3,879,700)	(2,326,232)
Total provision	(8,473,632)	8,954,314
Profit before tax	47,017,031	39,131,697
Current Tax	15,417,359	20,436,554
Profit after tax for the year	31,599,672	18,695,143

33.3 Amanah Assets and Liabilities Maturities Analysis as at 31 December 2018

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	5,000,000	-	-	-	-	5,000,000
Placement with other banks and financial institutions	-	-	-	-	-	-
Money at call on short notice	-	-	-	-	-	-
Investment	-	-	-	339,915,908	-	339,915,908
Fixed assets	-	-	-	-	-	-
Other assets	-	-	-	73,255,409	-	73,255,409
Non-banking assets	-	-	-	-	-	-
Total assets	5,000,000	-	-	413,171,317	-	418,171,317
Liabilities						
Placement from other banks and financial institutions	-	-	-	-	-	-
Deposits and other accounts	14,883,249	-	-	-	-	14,883,249
Other liabilities (including capital/shareholders' equity)	-	95	87,115	403,200,858	-	403,288,068
Total liabilities	14,883,249	95	87,115	403,200,858	-	418,171,317
Net liquidity difference	(9,883,249)	(95)	(87,115)	9,970,460	-	-

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

Daily 5.00% (2017: 6.00%) of average total demand and time liabilities	2018 BDT	2017 BDT
Required reserve	772,990	755,056
Actual reserve held with Bangladesh Bank	5,000,000	30,000,000
Surplus	4,227,010	29,244,944

ii) Amanah Cash Reserve Ratio (CRR):

Bi-weekly 5.50% (2017: 6.50%) of average total demand and time liabilities	2018 BDT	2017 BDT
Required reserve	850,289	817,977
Bi-weekly average reserve held with Bangladesh Bank	5,000,000	30,000,000
Surplus	4,149,711	29,182,023

(iii) Amanah Statutory Liquidity Ratio (SLR):

5.50% of average total demand and time liabilities	2018 BDT	2017 BDT
Required reserve	850,289	692,130
Bi-weekly average reserve held with Bangladesh Bank	4,149,711	29,182,023
Surplus	3,299,422	28,489,893

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 IAS 24 are defined as those persons having authority and responsibility for planning, directing and controlling the Bank, being members of the Board of Directors of the Group, Group Managing Directors, and close members of their families and companies they control, or significantly influence, or for which significant voting power is held.

34.1 Transactions with key management personnel

There were no transactions between the Bank and the key management personnel of the Bank in 2018 (2017: 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 2018 amounted to BDT143,118 (2017: BDT175,596) and interest expense paid to these entities during 2018 amounted to BDT297,279 (2017: BDT178,587), 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 2018 amounted to BDT5,713,739 (2017: BDT70,487,367) 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 2018 (2017: Nil). The total contribution to these schemes in 2018 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 2018 the provident fund had placed deposit of BDT56,085,382 (2017: BDT33,628,425) and the gratuity fund had placed deposits of BDT1,022,074,178 (2017: BDT835,636,315) 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 2018 amounted to BDT360,394 (2017: BDT180,179) and on deposit placed by the gratuity fund in 2018 amounted to BDT9,944,979 (2017: BDT8,605,374), 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), BRPD circular no.4 (5 March 2007) and DOS Circular no. 04: Risk Management Guideline (08 October 2018) require banks to put in place an effective risk management system. Bangladesh Bank monitors the progress of implementation of these guidelines through its on-site inspection teams through routine inspection. The risk management systems in place at the Bank are discussed below.

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 responsibilities, 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 2018 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
Ahmed Saiful Islam	Head of Retail Banking & Wealth Management
Mr. Bashar M Tareq	Head of Global Markets
Mohammad Omar Faruque	Head of Balance Sheet Management
Mr. Saurav Saha	Chief Risk Officer
Safiqul Islam (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, liquidity risk, capital adequacy, balance sheet risk, interest rate risk and makes necessary changes in product and balance sheet mix as and when required. Specific responsibilities include reviewing liquidity limits, capital requirements management, managing balance sheet growth, optimising the allocation and utilisation of all resources, understanding balance sheet dynamics, i.e. the interaction between asset and liability portfolios, and issues such as Fund Transfer Pricing, Interest Rate Risk Behaviouralisation, Liquidity Premium and Liquidity Recharges, asset and liability pricing policy.

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

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, later revised in 2018 The Bank has a Functional Instruction Manual (FIM) covering foreign exchange risk policies and investment policy. The Bank has also developed different strategies to handle foreign exchange risk by setting limits on net open positions by currencies, mismatch limits by currency and time buckets of forward foreign exchange transactions, overall gross limits for forward (FWD) transaction, maximum loss limits per day and per month, as well as Value at Risk (VAR) limits. All the limits mentioned here are monitored and managed on a daily basis. And there are separated independent Product control team to monitor and highlight any concerns/issues.

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

As at 31 December 2018 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.

HSBC follows a 3 Lines of Defence (LoD) model. As the First LoD, Business Risk and Control Management teams are responsible for providing operational risk advice for their organizational area. They work closely with Risk Owners and Control Owners to ensure operational risk management activities are effectively executed. The Second LoD review and challenge the activities of the First LoD to ensure that they have met the minimum requirements for risk management. The Second LoD consists of 'Risk Stewards' who are independent of the commercial risk-taking activities undertaken by the First LoD. Risk Stewards perform the specialist role of setting policies and the oversight of the First LoD activities for their given risk type.

As Third LoD, 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 International Audit, Asia Pacific, who reports to the Global Head of Internal Audit, ASP who reports to the Regional Board Audit Committee. The country executive management is responsible for ensuring the audit action plans sorted by the Internal Audit function are implemented within an appropriate and agreed timetable. GBL INA assesses both the design and operating effectiveness of HSBC's internal governance structures and processes and controls to consider if they comply with relevant laws and regulations, internal policies and are appropriate for the size, complexity and risk profile of the organization based on the risk assessment and GBL INA audit methodology.

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 and 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 and 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 Financial Crime Risk Management Committee (FCRMC) and are strictly embedded in the Bank. The Financial Crime Risk management framework is also governed in Risk Management Meeting (RMM) and Executive Committee (EXCO). 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; Compliance function comprising of Financial Crime Compliance (FCC) department of HSBC has been providing guidance and advice to front lines to establish robust Financial Crime risk controls. The function consists of dedicated individuals providing in-depth focus on key risk areas i.e. Anti-Money Laundering, Fraud, Counter Terrorist Financing, Sanctions and Anti-Bribery and Corruption (AB&C) where necessary. The function also consists of an assurance team, who perform on-going testing of AML, CTF, Sanctions and AB&C controls. FCC is led by the Country Head of FCC who is an Executive Committee member of the bank and reports directly to the Chief Executive Officer (CEO). Apart from FCC, the Compliance function also includes Financial Crime Threat Mitigation (FCTM) as a sub-function which specialises in all financial crime related investigations, including Money Laundering, Sanctions and Fraud investigations and also does intelligence gathering and analytical work to support informed decision making and effective information sharing internally and externally regarding financial crime related issues.

The pivotal point of combating financial crime is to know our customers better, accordingly HSBC Bangladesh has robust policies and procedures for Know Your Customer (KYC), Identification & Verification (ID&V), Customer Due Diligence (CDD), Customer Name Screening, Transaction Monitoring (TM)/Screening and Suspicious Activity Reporting (SAR), which are under continuous surveillance of Bank's local and Global Compliance and Internal Audit teams. The Bank is also taking number of initiatives to continuously improve these processes as well as the Financial Crime risk controls. As part of our continuous awareness program, bank has mandatory on-line AML, CTF and Sanctions training modules which are mandatory for all staff. Annual refresher is also in place for all staff.

36.1.6 Information technology

The Bank has its IT Department which includes Infrastructure Delivery, Application Development and Maintenance and Cybersecurity team for the support, service, software development and cybersecurity of IT systems where the core system is centralised in Hong Kong. Though much of the Bank's systems are built for Group purpose there are some sophisticated applications developed locally or purchased from third party vendors as and when required following a Risk Based Project Management (RBPMP) 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 and external Audit Status and remediation progress related to IT
- Incident report
- Emerging Risk / Risk Management Status related to IT

HSBC Bangladesh has an approved internal ICT Security Policy (approved by Executive Committee of the bank) as per Bangladesh bank (BB) ICT security guideline requirement. HSBC Bangladesh established ICT Steering Committee and ICT/ Cyber Governance Committee to comply with BB ICT Security guideline. These two committees look after ICT related risk and controls, cyber security risk and controls, regulatory and legal requirement related to ICT security etc. Beside, periodic training and various initiatives are taken by Information Security Risk (ISR) team in Risk function to increase information security awareness among all staff.

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 through BRPD circular no. 18 dated 21 December 2014 on revised Risk Based Capital Adequacy Guideline for Banks under BASEL III Accord. As per the directive of Bangladesh Bank all scheduled banks are required to report risk based capital adequacy for banks under Basel III. All scheduled banks are also required to make disclosures in both qualitative and quantitative terms. As a branch of the world's leading financial services 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:

	2018 BDT	2017 BDT
USD 1 =	83.45	82.69
HKD 1 =	10.66	10.58
SGD 1 =	60.76	61.80
GBP 1 =	105.40	111.11
AUD 1 =	58.82	64.33
EUR 1 =	95.09	98.71
CHF 1 =	84.18	84.39
JPY 1 =	0.75	0.73
CAD 1 =	61.35	65.54
NOK 1 =	9.53	9.99
AED 1 =	22.72	22.51
CNY 1 =	12.15	12.65
DKK 1 =	12.74	13.26



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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 2018:

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 and 2018.

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 Company Act, 1991. These ambiguities are yet to be settled and the Bank is seeking clarifications from appropriate Authorities. On the basis of the facts currently known and external legal opinions, management believes that the 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 2018 was BDT 1,786,270,904.

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, 18 February 2019

Statement of Liquidity (Assets and Liabilities Maturity Analysis) As at 31 December 2018							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*	39,749,639,332	-	-	-	6,003,076,828	45,752,716,160	
Balance with other banks and financial institutions (note 6.2)	4,804,460,292	-	-	-	-	4,804,460,292	
Money at call on short notice Investment (note 6.1)	13,302,087,922	2,848,087,310	12,341,887,901	-	6,000,000	28,498,063,133	
Loans and advances (note 9.1)	16,717,548,545	21,190,007,424	28,519,497,158	14,027,772,107	2,790,812,621	83,246,637,855	
Fixed assets	152,684	3,273,548	24,320,688	211,964,043	53,132,303	292,843,266	
Other assets	1,964,747,220	2,281,213,914	349,250,695	589,856,780	2,838,256	5,187,906,885	
Non-banking assets	-	-	-	-	-	-	
Total assets	76,538,635,995	26,322,582,196	41,234,956,442	14,829,592,390	8,855,860,008	167,781,627,571	
Liabilities							
Borrowings from other banks and financial institutions (note 12.4)	1,172,278,143	2,381,197,443	5,706,182,094	-	-	9,259,657,680	
Deposits and other accounts (note 13.1)	81,958,306,816	11,833,196,338	21,873,410,540	2,155,613,154	-	117,820,526,848	
Other liabilities (including capital/shareholders' equity)	1,439,636,943	1,422,851,252	2,427,988,518	32,311,276,058	3,099,690,272	40,701,443,043	
Total liabilities	84,570,221,902	15,637,245,033	30,007,581,152	34,466,888,212	3,099,690,272	167,781,627,571	
Net liquidity difference	(8,031,585,907)	10,685,337,163	11,227,375,290	(19,637,296,282)	5,756,169,736	0	

* 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 2018							Annexure - B
Bank Name	Currency name	2018		2017		Local currency	
		Foreign currency	Rate	Local currency	Foreign currency		
HSBC Hong Kong	HKD	1,944,193	10.6555	20,716,281	909,261	10.5800	9,619,933
HSBC Hong Kong Global ATM settlement account	HKD	1,737,892	10.6555	18,518,044	559,511	10.5800	5,919,601
HSBC Hong Kong Settlement account with	CNY	266,003	12.1546	3,233,153	301,603	12.6517	3,815,793
HSBC Hong Kong	USD	2,066,621	83.4472	172,453,743	852,499	82.6929	70,495,580
HSBC Japan	JPY	7,019,601	0.7526	5,282,883	39,531,714	0.7326	28,961,170
HSBC Singapore	SGD	14,612	60.7596	887,808	93,991	61.7987	5,808,556
HSBC India	USD	17,232,443	83.4472	1,437,999,096	6,852,523	82.6929	566,655,033
Credit Suisse AG Switzerland	CHF	887,602	84.1796	74,717,976	74,352	84.3891	6,274,508
HSBC Bank PLC UK	GBP	1,120,953	105.4022	118,150,813	1,480,717	111.1062	164,516,807
HSBC Bank USA	USD	15,583,034	83.4472	1,300,360,536	11,170,487	82.6929	923,719,949
SCB Pakistan	USD	841,996	83.4472	70,262,248	2,647,845	82.6929	218,957,944
HSBC Sri Lanka	USD	2,454,298	83.4472	204,804,267	1,595,252	82.6929	131,916,049
HSBC Bank Australia TT account	AUD	10,571	58.8219	621,796	5,883	64.3268	378,445
HSBC Bank Australia DD account	AUD	447	58.8219	26,271	12,185	64.3268	783,814
HSBC Bank Canada	CAD	25,014	61.3492	1,534,913	37,227	65.5409	2,439,914
HSBC France	EUR	6,403,328	95.0881	608,880,189	-	-	-
Danske Bank Denmark	DKK	3,963	12.7373	50,475	5,511	13.2576	73,060
HSBC Bank PLC UK	EUR	5,732,953	95.0881	545,135,563	1,519,241	98.7105	149,965,082
HSBC Bank India	EUR	693,503	95.0881	65,943,865	693,503	98.7105	68,456,031
HSBC Dubai	AED	13,984	22.7179	317,695	26,381	22.5131	593,913
Total				4,649,897,315			2,359,351,182

Financial Highlights (Onshore) as at 31 December 2018					Annexure - C
SI No	Particulars	Currency/percentage	2018	2017	
1	Fund deposited with Bangladesh Bank as capital	BDT	3,099,690,272	3,072,581,767	
2	Total capital including retained earnings	BDT	33,302,336,890	31,518,840,595	
3	Surplus capital	BDT	18,503,646,703	19,838,533,937	
4	Capital adequacy ratio	%	26.72	30.36	
5	Total assets	BDT	167,781,627,571	140,808,972,270	
6	Total deposits	BDT	117,820,526,848	97,829,653,473	
7	Total loans and advances	BDT	83,246,637,855	68,241,274,411	
8	Total contingent liabilities	BDT	215,377,966,814	178,977,906,999	
9	Advances/deposits ratio	%	70.65	69.76	
10	Classified advances as a percentage of total advances	%	1.77	2.31	
11	Profit after tax and provisions	BDT	3,076,049,478	3,339,964,780	
12	Amount of classified loans	BDT	1,475,858,628	1,573,244,596	
13	Amount of provision against classified loans	BDT	720,084,005	674,300,505	
14	Provision surplus	BDT	2,242,405,469	1,479,579,958	
15	Interest expenses	BDT	140,341,350,834	125,467,894,924	
16	Interest bearing assets	BDT	27,440,276,737	15,341,077,346	
17	Non interest bearing assets	BDT	-	3.99	
18	Return on Investment (ROI)*	%	4.04	4.21	
19	Return on Average Investment (ROI/A)*	%	1.83	2.37	
20	Return on Assets (ROA)*	%	10.02	11.41	
21	Return on Equity (ROE)*	%	1.36	1.48	
22	Income from investment	BDT	1,136,268,380	1,487,194,008	

Financial Highlights (Offshore) as at 31 December 2018					
SI No	Particulars	Currency**/percentage	2018	2017	
1	Total assets	BDT	141,507,957,799	113,421,262,693	
2	Total deposits	BDT	2,636,471,643	2,569,560,805	
3	Total loans and advances	BDT	139,822,834,972	112,693,593,785	
4	Total contingent liabilities	BDT	10,006,189,217	9,544,004,267	
5	Classified advances as a percentage of total advances	%	-	-	
6	Profit after tax and provisions	BDT	1,375,250,327	1,317,278,324	
7	Interest expenses	BDT	2,689,146,770	1,174,318,648	
8	Interest bearing assets	BDT	141,498,742,307	113,409,735,799	
9	Non interest bearing assets	BDT	9,215,492	11,526,894	
10	Return on Assets (ROA)*	%	0.97	1.16	

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

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

Key Financial Highlights (Consolidated) as at 31 December 2018					(Figures in BDT)
SI No	Particulars	Onshore	Offshore	Consolidated	
1	Total assets	167,781,627,571	141,507,957,799	309,289,585,370	
2	Total deposits	117,820,526,848	2,636,471,643	120,456,998,491	
3	Total loans and advances	83,246,637,855	139,822,834,972	223,068,472,827	
4	Total contingent liabilities	215,377,966,814	10,006,189,217	225,384,156,031	
5	Net interest income	4,833,824,284	3,325,732,329	8,159,556,613	
6	Non interest income	4,634,085,282	461,474,114	5,095,559,396	
7	Total operating income	9,467,909,566	3,787,206,443	13,255,116,009	
8	Profit before tax and provisions	5,730,144,938	2,292,083,795	8,022,228,733	
9	Profit after tax and provisions	3,076,049,478	1,375,250,327	4,451,299,805	

Bi weekly average balance of Bangladesh Bank statement for the month of December 2018					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-18	15,149,265,853	5,000,000	15,154,265,853		
16-Dec-18	15,149,265,853	5,000,000	15,154,265,853		
17-Dec-18	13,050,574,393	5,000,000	13,055,574,393		
18-Dec-18	12,915,181,461	5,000,000	12,920,181,461		
19-Dec-18	13,516,362,155	5,000,000	13,521,362,155		
20-Dec-18	14,691,987,552	5,000,000	14,696,987,552		
21-Dec-18	14,691,987,552	5,000,000	14,696,987,552		
22-Dec-18	14,691,987,552	5,000,000	14,696,987,552		
23-Dec-18	15,444,912,949	5,000,000	15,449,912,949		
24-Dec-18	19,088,517,443	5,000,000	19,093,517,443		
25-Dec-18	19,088,517,443	5,000,000	19,093,517,443		
26-Dec-18	24,308,362,598	5,000,000	24,313,362,598		
27-Dec-18	20,393,571,633	5,000,000	20,398,571,633		
28-Dec-18	20,393,571,633	5,000,000	20,398,571,633		
29-Dec-18	20,393,571,633	5,000,000	20,398,571,633		
30-Dec-18	20,393,571,633	5,000,000	20,398,571,633		
31-Dec-18	20,393,571,633	5,000,000	20,398,571,633		
				17,284,692,998	

Reconciliation between Bangladesh Bank's statement and Bank's statement as at 31 December 2018		Annexure - E
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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

Local currency	BDT	BDT	BDT
Bangladesh Bank Dhaka	20,052,679,153	19,872,535,182	180,143,971
Bangladesh Bank Chattogram	336,746,211	335,364,069	1,382,142
Bangladesh Bank Sylhet	4,146,268	766,873	3,379,395
Bangladesh Bank Amanah	5,000,000	5,000,000	-
Sonali Bank as an agent of Bangladesh bank			
	20,398,571,632	20,213,666,124	184,905,508

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

Foreign currency	USD	USD	BDT	USD
USD clearing account	224,409,865	210,415,422	17,558,577,840	13,994,443
USD capital account	71,938,625	71,938,625	6,003,076,828	-
Total	296,348,490	282,354,047	23,561,654,668	13,994,443

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

GBP clearing account	GBP	GBP	BDT	GBP
	260,834	260,834	27,492,487	-

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

EUR clearing account	EUR	EUR	BDT	EUR
	2,291,519	3,771,297	358,605,375	(1,479,778)

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)			23,947,752,530	
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Disclosures on risk based capital under Pillar - III of Basel III for the year ended 31 December 2018		Annexure - F
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1 Disclosure policy

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

The major highlights of the Bangladesh Bank regulations are:

- To maintain Capital Adequacy Ratio (CAR) at a minimum of 11.875%



FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Bangladesh Branches

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	2018 BDT	2017 BDT
Claims on sovereigns and central banks	45,752,716,160	27,976,630,606
Claims on banks	4,804,460,292	3,803,560,788
Investments	7,915,203,878	10,555,016,889
Claims on corporate	76,309,843,731	60,113,556,318
Claims on consumer	5,598,280,667	6,858,313,277
Fixed assets	292,843,266	333,843,488
All other assets	5,897,354,667	9,805,824,640
Total on-balance sheet items	146,570,702,660	119,446,746,006
Off-balance sheet items (after considering the credit conversion factor)	67,874,238,716	46,397,855,994
Total	214,444,941,376	165,844,602,000

Geographical distribution of credit exposures

2018	Dhaka	Chattogram	Total BDT
Claims on sovereigns and central banks	44,872,775,722	879,940,437	45,752,716,160
Claims on banks	4,804,460,292	-	4,804,460,292
Investments	7,913,400,978	1,802,900	7,915,203,878
Claims on corporate	65,969,684,816	10,340,158,915	76,309,843,731
Claims on consumer	4,724,947,636	873,333,032	5,598,280,667
Fixed assets	225,104,928	67,738,337	292,843,266
All other assets	5,861,966,568	35,388,099	5,897,354,667
Total on-balance sheet items	134,372,340,940	12,198,361,721	146,570,702,660
Off-balance sheet items	63,364,761,148	4,509,477,568	67,874,238,716
Total	197,737,102,088	16,707,839,289	214,444,941,376

2017	Dhaka	Chattogram	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	1,267,957,557	6,858,313,278
Fixed assets	251,706,030	82,137,458	333,843,488
All other assets	9,754,082,891	51,741,748	9,805,824,639
Total on-balance sheet items	107,624,021,743	11,822,724,263	119,446,746,006
Off-balance sheet items	42,852,547,270	3,545,308,724	46,397,855,994
Total	150,476,569,013	15,368,032,987	165,844,602,000

Industry distribution of exposures

2018	Banks and FIs	Manufacturing	Industry	Retail	Others	Total BDT
Claims on sovereigns and central banks	45,752,716,160	-	-	-	-	45,752,716,160
Claims on banks	4,804,460,292	-	-	-	-	4,804,460,292
Investments	-	-	-	-	7,915,203,878	7,915,203,878
Claims on corporate	-	37,578,118,257	25,641,660,899	-	13,090,064,576	76,309,843,731
Claims on consumer	-	-	-	4,449,619,007	1,148,661,660	5,598,280,667
Fixed assets	-	-	-	-	292,843,266	292,843,266
All other assets	-	-	-	-	5,897,354,667	5,897,354,667
Total on-balance sheet items	50,557,176,451	37,578,118,257	25,641,660,899	4,449,619,007	28,344,128,046	146,570,702,660
Off-balance sheet items	22,295,126,694	-	-	-	45,579,112,022	67,874,238,716
Total	72,852,303,145	37,578,118,257	25,641,660,899	4,449,619,007	73,923,240,068	214,444,941,376

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	31,780,191,394	31,327,362,706	21,058,323,994	6,395,725,753	28,885,142,159	119,446,746,006
Off-balance sheet items	15,008,078,441	-	-	-	31,389,777,553	46,397,855,994
Total	46,788,269,835	31,327,362,706	21,058,323,994	6,395,725,753	60,274,919,712	165,844,602,000

Maturity breakdown of credit exposures

2018	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	39,749,639,332	-	-	-	6,003,076,828	45,752,716,160
Claims on banks	4,804,460,292	-	-	-	-	4,804,460,292
Investments	1,507,862,515	550,716,344	5,856,625,018	-	-	7,915,203,878
Claims on corporate	16,029,119,774	20,940,138,384	28,650,689,387	10,080,685,202	609,210,984	76,309,843,731
Claims on consumer	21,104,351	72,896,255	200,222,569	3,525,838,468	1,778,219,024	5,598,280,667
Fixed assets	152,684	3,273,548	24,320,688	211,964,043	53,132,303	292,843,266
All other assets	1,964,747,220	2,281,180,066	350,465,066	834,862,841	466,099,473	5,897,354,666
Total on-balance sheet items	64,077,086,168	23,848,204,588	35,082,322,729	14,653,350,554	8,909,738,612	146,570,702,660
Off-balance sheet items	8,222,753,182	14,642,968,163	31,408,887,543	13,599,629,828	-	67,874,238,716
Total	72,299,839,350	38,491,172,751	66,491,210,272	28,252,980,382	8,909,738,612	214,444,941,376

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	2,107,491,428	4,815,712,892	2,097,249,949	-	10,555,016,890
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	210,399,406	102,009,151	333,843,488
All other assets	7,372,653,151	1,389,019,096	426,544,968	612,285,558	5,321,866	9,805,824,639
Total on-balance sheet items	55,979,843,633	17,366,854,005	27,291,879,992	13,554,295,336	5,253,873,040	119,446,746,006
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	63,269,006,963	30,516,827,798	41,513,458,082	25,291,436,117	5,253,873,040	165,844,602,000

Gross Non Performing Assets (NPA's)

	2018 BDT	2017 BDT
Non Performing Assets (NPAs) to outstanding loans and advances	1,475,858,628	1,573,244,596

Movement of NPAs

Opening Balance	1,573,244,596	1,546,816,754
Written off during the period	(229,811,807)	(184,493,595)
Recoveries during the period	(81,515,249)	(94,150,050)
Addition during the period	213,941,087	305,071,487
Closing Balance	1,475,858,628	1,573,244,596

Movement of specific provision for NPAs

Opening Balance	674,300,505	678,083,447
Written off (net of recovery) during the period	(60,155,650)	(60,551,886)
Recoveries during the period	(61,797,309)	(160,030,590)
Provision made during the period	167,736,459	216,799,534
Closing Balance	720,084,005	674,300,505

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 tradeability, or able to be hedged completely. Generally, investments in 'Held for Trading' portfolios are focal parts of the trading book.

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

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

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

Interest rate exposures

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

Interest rate exposures in the banking book

Interest rate risk is the risk where changes in market interest rates might adversely affect a bank's financial condition. The immediate impact of changes in interest rates is on the Net Interest Income (NII). A long term impact of changing interest rates is on the Bank's net worth since the economic value of a Bank's assets, liabilities and off-balance sheet positions are affected by a variation in market interest rates. The responsibility of interest rate risk management rests with the Bank's Asset and Liability Management Committee (ALCO). The Bank periodically computes the interest rate risk on the banking book that arises due to re-pricing mismatches in interest rate sensitive assets and liabilities. For the purpose of monitoring such interest rate risk, the Bank has in place a system that tracks the re-pricing mismatches in interest bearing assets and liabilities. For computation of the interest rate mismatches the guidelines of Bangladesh Bank are followed.

Foreign exchange risk

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

Equity position risk

The Bank does not hold a trading position in equities.

Quantitative disclosures:

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

The capital requirement for:	2018 BDT	2017 BDT
Interest rate risk	35,230,937	104,554,312
Equity position risk	-	-
Foreign exchange risk	180,151,531	42,965,176
Commodity risk	-	-
Total	215,382,468	147,519,488

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:

	2018 BDT	2017 BDT
Capital charge for operational risk	1,577,528,169	1,782,662,087

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:

Quantitative disclosures:	2018 BDT	2017 BDT
Liquidity coverage ratio (%)	119.92%	111.13%
Net Stable Funding Ratio (%)	109.15%	111.96%
Stock of High quality liquid assets	63,630,750,251	48,878,111,009
Total net cash outflows over the next 30 calendar days	53,062,849,333	49,881,628,964
Available amount of stable funding	133,411,158,384	110,932,037,593
Required amount of stable funding	122,228,170,674	99,081,583,983



FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Bangladesh Branches & Offshore Banking Unit

- 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:	2018 BDT	2017 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	763	770
Guaranteed bonuses awarded during the financial year:		
Number of employee	860	847
Total amount of guaranteed bonuses	80,668,542	76,045,093
Sign-on awards made during the financial year:		
Number of employee	-	-
Total amount of sign-on awards	-	-
Severance payments made during the financial year:		
Number of employee	7	1
Total amount of severance payments	35,867,138	8,827,049
Total amount of outstanding deferred remuneration (in cash)	6,640,832	11,039,004
Total amount of deferred remuneration paid out in the financial year	5,913,855	4,781,294
Breakdown of amount of remuneration awards for the financial year:		
Fixed and variable	2,081,067,335	2,190,273,206
Variable pay		
Deferred	7,414,662	7,007,823
Non-deferred	373,521,837	375,162,565
	380,936,499	382,170,388

Offshore Banking Unit

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of The Hongkong and Shanghai Banking Corporation Limited (HSBC), Bangladesh Offshore Banking Unit (the "Bank") which comprise the balance sheet as at 31 December 2018 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.

In our opinion, the accompanying financial statements of the Bank give a true and fair view of the financial position of the Bank as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as explained in note 3.

Basis for Opinion

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements and Internal Controls

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Report on Other Legal and Regulatory Requirements

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

- 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;
- 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 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:
 - internal audit, internal control and risk management arrangements of the Bank as disclosed in the financial statements appeared to be materially adequate;
 - 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;
- 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;
- the records and statements submitted by the branches have been properly maintained and consolidated in the financial statements;
- the balance sheet and profit and loss account together with the annexed notes dealt with by the report are in agreement with the books of account and returns;
- the expenditures incurred were for the purpose of the Bank's business for the year;
- the financial statements have been drawn up in conformity with prevailing rules, regulations and accounting standards as well as related guidance issued by Bangladesh Bank;
- adequate provisions have been made for loans and advances and other assets which are in our opinion, doubtful of recovery;
- the information and explanations required by us have been received and found satisfactory; and
- we have reviewed over 80% of the risk weighted assets of the Bank and spent over 220 person hours.

Hoda Vasi Chowdhury & Co
Chartered Accountants

Dhaka, 18 February 2019

Balance Sheets at 31 December 2018

	Notes	2018 USD	BDT	2017 USD	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		10,083,446	841,435,335	8,660,260	716,142,014
Outside Bangladesh		10,083,446	841,435,335	8,660,260	716,142,014
Money at call on short notice		-	-	-	-
Investments		-	-	-	-
Loans and advances	6				
i) Loans, cash credits, overdrafts, etc.: In Bangladesh		387,136,566	32,305,462,450	347,301,780	28,719,391,363
Outside Bangladesh		387,136,566	32,305,462,450	347,301,780	28,719,391,363
ii) Bills purchased and discounted (excluding treasury bills of the Government): Payable in Bangladesh		1,288,447,935	107,517,372,522	1,015,494,709	83,974,202,422
Payable outside Bangladesh		1,288,447,935	107,517,372,522	1,015,494,709	83,974,202,422
		1,675,584,501	139,822,834,972	1,362,796,488	112,693,593,785
Fixed assets		-	-	-	-
Other assets	7	10,110,435	843,687,493	139,394	11,526,894
Non - Banking assets		-	-	-	-
Total assets		1,695,778,382	141,507,957,800	1,371,596,143	113,421,262,693
LIABILITIES AND CAPITAL					
Borrowing from other banks, financial institutions and agents	8				
Bangladesh Bank		-	-	-	-
Other:					
In Bangladesh		1,581,303,179	131,955,322,639	1,228,526,124	101,590,387,919
Outside Bangladesh		1,581,303,179	131,955,322,639	1,228,526,124	101,590,387,919
Deposits and other accounts	9				
Current account and other accounts		22,844,633	1,906,320,659	23,681,634	1,958,302,992
Bills payable		8,351,077	696,873,993	7,000,358	578,879,904
Term deposits		398,779	33,276,991	391,544	32,377,909
		31,594,489	2,636,471,643	31,073,536	2,569,560,805
Other liabilities	10	35,818,134	2,988,922,992	81,414,388	6,732,391,818
Total liabilities		1,648,715,802	137,580,717,274	1,341,014,048	110,892,340,542
Capital/shareholders' equity	11				
Profit and loss account		47,062,580	3,927,240,526	30,582,095	2,528,922,151
		47,062,580	3,927,240,526	30,582,095	2,528,922,151
Total liabilities and shareholders' equity		1,695,778,382	141,507,957,800	1,371,596,143	113,421,262,693
Off balance sheet items					
Contingent liabilities:	12				
Acceptances and endorsements		45,292,371	3,779,521,541	46,713,507	3,862,875,399
Letters of guarantee		4,162,021	347,308,999	1,319,397	109,104,764
Irrevocable letters of credit		70,456,033	5,879,358,677	67,382,135	5,572,024,114
Total Off Balance Sheet items		119,910,425	10,006,189,217	115,415,039	9,544,004,267

The annexed notes 1 to 20 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, 18 February 2019

Profit and Loss Account for the year ended 31 December 2018

	Notes	2018 USD	BDT	2017 USD	BDT
Interest income	13	72,080,059	6,014,879,099	50,211,933	4,152,170,354
Interest paid on deposits and borrowings	14	(32,225,728)	(2,689,146,770)	(14,200,961)	(1,174,318,648)
Net interest income		39,854,331	3,325,732,329	36,010,972	2,977,851,706
Commission, exchange and brokerage	15	5,530,133	461,474,114	5,698,165	471,197,816
Total operating income		45,384,464	3,787,206,443	41,709,137	3,449,049,522
Operating expenses	16	(17,916,990)	(1,495,122,648)	(14,005,232)	(1,158,133,221)
Profit before provision		27,467,474	2,292,083,795	27,703,905	2,290,916,301
Specific provision		-	-	-	-
Profit before tax		27,467,474	2,292,083,795	27,703,905	2,290,916,301
Provision for tax		-	-	-	-
Current year		(10,986,989)	(916,833,468)	(11,774,142)	(973,637,977)
Prior year		-	-	-	-
Net Profit after tax		(10,986,989)	(916,833,468)	(11,774,142)	(973,637,977)
		16,480,485	1,375,250,327	15,929,763	1,317,278,324

The annexed notes 1 to 20 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, 18 February 2019

Cash Flow Statement for the year ended 31 December 2018

	Notes	2018 USD	2017 USD
A Cash flow from operating activities:			
Interest received		72,077,939	50,228,160
Interest paid		(28,503,360)	(13,157,828)
Commission, exchange and brokerage received		5,592,354	5,727,012
Operating profit before changes in operating assets and liabilities		49,166,933	42,797,344
(Increase)/decrease in operating assets: Loans and advances to customers		(312,788,012)	(313,266,824)
Other assets		(10,000,000)	-
Increase/(decrease) in operating liabilities: Customers' deposits and other accounts		520,953	(7,658,735)
Borrowing from other banks and financial institutions		352,777,065	287,371,147
Other liabilities		(78,253,743)	(30,193,434)
		(47,743,747)	(63,747,846)
Net cash receipt/(used) from operating activities		1,423,186	(20,950,502)
B) Cash flow from investing activities:		-	-
C) Cash flow from financing activities:			
Profit remitted to head office	11	-	-
D) Net increase/(Decrease) in cash and cash equivalents (A+B+C)		1,423,186	(20,950,502)
E) Opening cash and cash equivalents		8,660,260	29,610,762
F) Closing cash and cash equivalents (D+E)	17	10,083,446	8,660,260

Notes to the Financial Statements as at and for the year ended 31 December 2018

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 commercial and institutional banking, retail 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 both corporate and commercial customers. Services provided include working capital, term loans, payment services and international trade facilitation, among other services, as well as expertise in mergers and acquisitions, and access to financial markets. This allows the Bank to provide continuous support to companies as they grow both domestically and internationally and ensures a clear focus on internationally aspirant customers. The Bank has an OBU 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 provide solutions relating to the clients foreign exchange needs.

- Financial Institutions Group (FIG): Financial Institutions Group is the client sector within Global Banking and Markets responsible for all aspects of the Group's relationships with financial institutions. Financial Institution Group 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 modern trade operation and robust technological platform, HSBC tries to ensure consistent and faster services to the customers in meeting their working capital requirements. Using 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 in modernised and digitised methods.

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

- Global Liquidity and Cash Management: Global Liquidity and Cash Management (GLCM) helps clients to optimise control over cash flows with our global payables, receivables and liquidity solutions coupled with online platform. 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 with conformity to local 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 formed and it is yet to issue financial reporting standards for public interest entities such as banks. The Bank Company 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 International Financial Reporting Standards (IFRS) as approved by the Institute of Chartered Accountants of Bangladesh (ICAB) are still applicable.

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

i) Provision on loans and advances

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

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), BRPD circular No.05 (29 May 2013) and BRPD circular No.1 (20 February 2018) 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/loss loans has to be provided at 5%, 20%, 50% and 100% respectively for loans and advances depending on time past due. Again as per BRPD circular No. 10 dated 18 September 2007 and BRPD circular No. 14 dated 23 September 2012, a general provision at 1% is required to be provided for all off-balance sheet exposures. Such provision policies are not specifically in line with those prescribed by IFRS 9.

ii) Other comprehensive income

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

Bangladesh Bank: Bangladesh Bank has issued templates for financial statements which will strictly be followed by all banks. The templates of financial statements issued by Bangladesh Bank 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.

iii) Financial instruments – presentation and disclosure

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

iv) Financial guarantees

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

Bangladesh Bank: As per BRPD 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.

v) Cash flow statement

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

Bangladesh Bank: As per BRPD 14, the cash flow statement is a mixture of both the direct and the indirect methods.

vi) Off-balance sheet items

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

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

vii) Loans and advances net of provision

IFRS: 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 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



FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Offshore Banking Unit

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.1 (20 February 2018), BRPD circular No.15 (27 September 2017), BRPD circular No.16 (18 November 2014), BRPD circular No.14 (23 September 2012), BRPD circular No. 19 (27 December 2012) and BRPD circular No. 05 (29 May 2013). The guidance in the circular follows a formulaic approach whereby specified rates are applied to the various categories of loans as defined in the circular. The provisioning rates are as follows:

	2018	2017
Specific provision on loans and advances	BDT	BDT
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 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.

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 other assets

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

4.7 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.

4.11 Contingent liabilities

As per IAS 37 contingent liability is:

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

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

- it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
- 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 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 Operating expenses

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

4.15 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 40%.

4.16 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.

4.17 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 2018 have been considered. However, these amendments have no material impact on the financial statements of the Bank.

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

A number of standards and amendments to standards are effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted. However, the Bank has not early applied the following new standards in preparing these financial statements.

(a) 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 shall implement IFRS 16 subject to Bangladesh Bank approval.

(b) IFRS 17 Insurance contract

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

5 Balance with other Banks and Financial Institutions

	2018	2017
	USD	USD
Inside Bangladesh	-	-
Outside Bangladesh:		
HSBC Bank, USA - USD	-	3,166,955
HSBC Bank, UK - GBP	991,476	787,311
HSBC Bank, UK - EUR	3,993,502	4,072,536
HSBC Hong Kong - CNY	2,736	4,100
Credit Suisse AG - CHF	1,775,674	296,194
HSBC France	2,892,910	-
HSBC Bank, Japan - JPY	427,148	333,164
(For detail see Annexure - B)	10,083,446	8,660,260

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

Current account	10,083,446	8,660,260
Short term deposit account	10,083,446	8,660,260

5.2 Maturity grouping of balance with other banks and financial institutions

Payable on demand	10,083,446	8,660,260
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	-	-
Over five years	-	-
	10,083,446	8,660,260

6 Loans and advances

Loans		
Inside Bangladesh		
Overdraft	8,586,020	6,565,428
Term loans	236,748,418	219,048,661
Import loans	135,791,944	113,566,019
Working Capital	6,010,184	8,121,672
	387,136,566	347,301,780
Outside Bangladesh	387,136,566	347,301,780

Bills purchased and discounted:

Inside Bangladesh		
Import bills	-	-
Export bills	1,288,447,935	1,015,494,709
	1,288,447,935	1,015,494,709
Outside Bangladesh	1,288,447,935	1,015,494,709
	1,675,584,501	1,362,796,489

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

Payable on demand	16,249,152	8,391,281
Payable within one month	275,776,796	220,345,324
More than one month but less than three months	488,856,033	383,455,184
More than three months but less than one year	669,307,020	554,969,064
More than one year but less than five years	86,348,880	94,794,314
Over five years	139,046,620	100,841,322
	1,675,584,501	1,362,796,489

6.2 Maturity analysis of bills purchased and discounted

Within one month	253,240,236	192,434,749
More than one month but less than three months	417,270,734	328,752,203
More than three months but less than six months	428,457,827	395,600,993
More than six months but less than one year	189,479,138	199,706,764
	1,288,447,935	1,015,494,709

6.3 Classification of loan and advances

Unclassified:		
Standard	1,675,584,501	1,362,796,489
Special Mention Account	1,675,584,501	1,362,796,489

Classified:

Substandard	-	-
Doubtful	-	-
Bad/Loss	-	-
	1,675,584,501	1,362,796,489

6.4 Sector-wise classification of loans and advances

Readymade Garments and Textile	397,468,224	312,923,384
Other Manufacturing companies	115,918,908	104,870,147
Other	1,162,197,369	945,002,958
	1,675,584,501	1,362,796,489

6.5 Particulars of loans and advances

i) Loans considered good in respect of which the Bank is fully secured;	1,675,584,501	1,362,796,489
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	1,673,646,413	1,360,541,604
Chattogram	1,938,088	2,254,885
	1,675,584,501	1,362,796,489

7 Other assets

Interest receivable from banks and other financial institutions	34,881	1,241
Commission receivable	15,554	138,153
HSBC Bangladesh Branches	10,000,000	-
	10,110,435	139,394

8 Borrowings from other banks, financial institutions and agents

In Bangladesh	-	-
Outside Bangladesh		
HSBC, Hong Kong	1,580,502,093	1,228,526,124
Other deposits- nostro overdrawn	1,581,303,179	1,228,526,124
	1,581,303,179	1,228,526,124

8.1 Classification based on type of security

Secured	1,581,303,179	1,228,526,124
Unsecured	1,581,303,179	1,228,526,124

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

Payable on demand	801,086	-
Payable within one month	52,249,593	68,390,724
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	1,528,252,500	1,160,135,400
	1,581,303,179	1,228,526,124

9 Deposits and other accounts

	2018	2017
	USD	USD
Current account	20,367,586	19,709,137
Sundry deposits	2,477,047	3,972,497
Bills payable	8,351,077	7,000,358
Term deposits	398,779	391,544
	31,594,489	31,073,536

9.1 Maturity analysis of deposits and other accounts

Payable on demand	29,271,503	28,795,263
Payable within one month	14,885	74,210
More than one month but less than three months	444,080	425,093
More than three months but less than one year	638,097	1,377,879
More than one year but less than five years	1,225,924	401,091
	31,594,489	31,073,536

10 Other liabilities

Interest payable	6,328,275	2,605,907
Commission received in advance	119,501	88,359
Payable to Head Office	9,095,759	-
HSBC Bangladesh Branches	19,808,221	78,279,374
Others	466,378	440,748
	35,818,134	81,414,388

11 Profit and loss account

Opening balance	30,582,095	14,652,332
Profit for the year	16,480,485	15,929,763
Profit remitted to head office	-	-
Closing balance	47,062,580	30,582,095

12 Contingent liabilities

	2018	2017
	USD	USD
Acceptance and endorsement	45,292,371	46,713,507
	45,292,371	46,713,507
Letter of guarantees:		
Money for which the bank is contingently liable in respect of guarantees given favoring:		
Government	2,049,795	1,305,397
Other	2,112,226	14,000
	4,162,021	1,319,397
Irrevocable letters of credit	70,456,033	67,382,135
	70,456,033	67,382,135
	119,910,425	115,415,039

13 Interest income

Overdraft	278,080	232,147
Term loans	12,809,627	12,139,785
Import loans	6,823,810	4,656,179
Working capital	103,807	358,459
Export and import bills	52,031,451	32,701,967
Income from inter-group lending	23,957	123,278
Income from lending to HSBC Bangladesh Branches	4,127	118
	72,080,059	50,211,933

14 Interest paid on deposits and borrowings

Borrowing from banks	32,151,007	13,327,391
Customer fixed deposits	1,501	1,271
Interest on borrowing from HSBC Bangladesh Branches	73,220	872,299
	32,225,728	14,200,961

15 Commission, exchange and brokerage

Exchange income/loss	281,063	(26,423)
Commission income:		
Import LC	3,016,272	2,962,670
Export LC	2,086,000	2,547,495
Credit facilities	142,269	83,500
Remittance	23,950	17,210
	5,268,491	5,740,875
	(19,421)	(16,287)
	5,249,070	5,724,588
	5,530,133	5,698,165

16 Operating expenses

Head office expense (Note 4.14)	9,095,759	-
Expense allocation from HSBC Bangladesh Branches	8,821,231	14,005,232
	17,916,990	14,005,232

17 Cash and cash equivalents

Balance with other banks (Note 5)	10,083,446	8,660,260
Money at call on short notice	-	-
	10,083,446	8,660,260

18 Related party transaction

The related parties of



HSBC: Partners in Progress

HSBC: More than 150 years of connecting customers to opportunities

HSBC's founders started out on 3 March 1865 with a clear and simple aim – to establish a bank in Hong Kong and Shanghai for the support of local and foreign trade 'which has become so much more extensive and varied than in former years'. Down the decades, we have grown globally and adapted in order to weather change and meet the many challenges we have encountered along the way: revolutions, global conflict, economic crises, natural disasters, new markets and shifting demographics. Throughout it all, we have remained committed to our purpose: connecting customers to opportunities and enabling businesses to thrive and economies to prosper.

Today HSBC is one of the largest financial organisations in the world connecting millions of customers to opportunities worldwide across five geographical regions: Europe, Asia, Middle East and North Africa, North America and Latin America.

HSBC in Bangladesh

- HSBC opened its first office in Dhaka, in 1996. Since its establishment, staying true to its purpose, HSBC has been striving to become a trusted partner of Bangladesh's economic growth and prosperity.
- Our key business areas are Commercial Banking including award winning Payments and Cash Management Services and Global Trade and Receivables Finance, Retail Banking and Global Markets. We are the only bank in Bangladesh that has a presence in all 8 Export Processing Zones (EPZs) of the country expediting trade.
- We help commercial enterprises to achieve the right financing mix by providing innovative financing solutions, mobilising credit for energy and power, telecommunications, infrastructure (cement, steel and related industries) and export oriented industries.
- We are aligned with the development strategy of Bangladesh, and have supported selective long term projects which support other economic drivers like employment, social and environmental improvement etc.

Contributions to the development journey of Bangladesh

Long term Competitive financing for infrastructure development

In last 5 years, HSBC arranged approximately USD 1.3bn of long term financing in power and telecommunications sectors. These are supported by several European and Chinese Export Credit Agencies and also Multilateral Investment Guarantee Agency of the World Bank.

Addressing the demand-supply gap in electricity generation

As the Leading International Bank, HSBC is aligned with Government's strategy to improve country's power system network. HSBC has arranged USD1.12bn of long term credit facilities for Government subsidiaries in power sector. This supported installation of new 1.3GW of power generating plants which is approximately 11% country's present power generation capacity. HSBC through its global client network banking has also facilitated to showcase the investment opportunities in Bangladesh and country's need for large infrastructure projects.

Increasing country-wide electrification coverage

HSBC is also the pioneer institution in arranging country's first commercial financing in electricity transmission sector. Development in transmission sector is important to increase the electricity coverage country-wide reaching to indigenous communities.

Diversifying Fuel-Mix as source of power

The power projects supported by HSBC are combined cycle power projects which uses gas and team as fuel source. One of the projects is also a repowering of an old generating facility of 250MW increasing to 416MW at almost double of efficiency rate. HSBC also supported country's first cross-border electricity import of 250MW from India. This has supported the government's plan to diversify the energy source to opt for low cost, carbon-free fuel sourcing for power generation.

Commercial import of Liquid Natural Gas (LNG)



Bangladesh is on a journey towards securing a higher economic ranking from the World Bank by 2021. But as its average income grows, its natural gas resources, which currently generate about half its power, is coming under strain as demand outstrips supply. HSBC stepped forward to finance Petrobangla, the state-owned oil, gas and Mineral Corporation to ensure energy security for the country. HSBC provided a standby documentary credit facility for Petrobangla's first commercial shipment of liquefied natural gas (LNG), gas that is cooled to a liquid state to make it easier to ship and store.

Telecommunication development: Bangabandhu-1 Satellite



Telecommunication is another thrust sector that the country is considering at this moment. HSBC arranged EUR155mn of credit facilities to implement country's first satellite project 'Bangabandhu-1' which will enable the country to own and provide communications and broadcasting services to local demands and the surrounding region.

Long term financing for Private Sector Enterprises

HSBC has also focused in private sector growth opportunities in Bangladesh. We have identified thrust sectors for private investments in- Textile and Garments, Food Processing, Captive Power, Cement, Manufacturing etc. Historically, these private sector projects could not enjoy long term financing in its capital expenditure ventures, which HSBC being a global bank could facilitate leveraging its

international network and buyer-supplier relationships. In last five years, HSBC has arranged approximate USD200mn of Export Credit Agency backed financing in private sectors, paving opportunities to local conglomerates a gateway to international debt market.

Modernising the National Flag Carrier- Biman



National flag carrier, Biman Bangladesh Airlines acquired the nation's first two Boeing B787 Dreamliner aircraft "Aakashbeena" and "Hangsabalaka" which arrived in Bangladesh recently. HSBC successfully arranged Term Loan facilities amounting to cUSD260mn (consisting SACE-covered ECA loan and commercial loan facility) for Biman Bangladesh Airlines for this purchase. HSBC acted as overall Coordinating Arranger as well as Joint Mandated Lead Arranger for the SACE-covered ECA loan and Joint Mandated Lead Arranger for the commercial loan facility.

Launch of HSBC Visa Debit Card

The Hongkong and Shanghai Banking Corporation Limited (HSBC) in partnership with Visa launched HSBC Visa Debit Card in Bangladesh for its customers recently. With the HSBC Visa Debit card, customers can avoid the hassle of carrying large amounts of cash to pay for their daily expenses. The card has the best in class security features, compatible with both NPSB (National Payment Switch Bangladesh) and VISA's network coverage and can be linked with foreign currency (FCY) accounts for international coverage – ATMs and merchant outlets. The HSBC Visa Debit Card will enable customers' access over 13,000 local merchants for shopping, entertainment, dining and travel.

HSBC Bangladesh: Giving Back to the Community

At HSBC, Corporate Social Responsibility (CSR) is referred as Corporate Sustainability (CS) to recognise the wider commitments to communities in which we operate.

It is said that business is all about the bottom line, but behind the numbers are the people who make it happen: our employees, our customers, our shareholders and the communities in which we operate. Together, they have shaped HSBC into the organisation it is today.

Today our sustainability approach focuses on three main areas: sustainable finance; sustainable supply chains; and employability and financial capability.

We have set out a series of commitments to contribute to the global transition to a low-carbon economy. We have also pledged long-term support to help people access education and training so they can acquire the skills they need to succeed in today's workplace. And through our partnerships with customers, NGOs and other key stakeholders, we are encouraging responsible business in global supply chains.

HSBC also recognises its responsibility to contribute to the United Nations Sustainable Development Goals (SDGs). The SDGs are a globally agreed framework to help protect the planet, end poverty and ensure peace and prosperity, and consist of 17 goals and 169 targets to be achieved by 2030. We will continue to play our part in achieving the SDGs through our work on our three sustainability priorities, our financing and investments, and the way we do business.

In Bangladesh, we have taken strides to work in communities for health care, education and environment. In the recent past, there has been multiple projects ranging from assistance for the disabled to working for a sustainable supply chain. Following section includes a brief on selected CS initiatives from HSBC Bangladesh:

HSBC Water Programme

Changing lives in the remote areas of Bangladesh providing pure drinking water and sanitation



The HSBC Water Programme began as a five-year initiative running between 2012 and 2016, backed by USD100mn of support from HSBC. By the end of 2016 the partners had exceeded their original five-year targets. Building on these achievements, HSBC extended the programme for a further three years (from 2017 to 2019) and provided a further USD50mn of funding, bringing the total support over eight years to USD150mn.

As part of this global initiative, in Bangladesh, implementation of the HSBC Water Programme on the first phase covered seven districts in Kurigram, Sylhet and Munshiganj, Rajshahi, Rangpur, Moulvibazar, and Khulna. The second phase of the programme progressed in remote climate vulnerable districts which includes Meherpur, Sunamganj, Khulna and Satkhira. The project has already gained success in collaboration with the local NGO partners by engaging with the local community and also in partnership of local government in few cases.

The Water Programme in Bangladesh is planned to continue till December 2019. Remote areas of Bandarban have also been included in the programme coverage in 2015. The local NGO partner built Gravity Flow System (GFS) at Thanchi Upazila of Bandarban district is benefitting hundreds of marginalised ethnic people suffering from acute water crisis.

The programme also supported the climate vulnerable people of Dacope Upazila in Khulna district with innovative and locally adaptive water technologies like Water ATM, Solar Powered Reverse Osmosis plant, Rainwater Harvesting System (RWHS) and alike.

IMPACT by end of 2019:

- Total people reached with safe water: 260,369
- Total people reached with sanitation facilities: 490,244
- In 8 years at a cost of more than USD5.6mn.

Building sustainable inclusive business model

HSBC and the United Nations Development Programme (UNDP) collaborated to promote sustainable supply chain in Bangladesh apparel industry by creating inclusive business model in 2018. The two organisations jointly arranged a seminar on "Leveraging Sustainable Supply Chain in Apparel", as a part of UNDP's Business Call to Action (BCtA) initiative which aims to accelerate progress towards the Sustainable Development Goals (SDGs). Supply chain is responsible for the majority



environmental impact like greenhouse emissions and for the livelihood and wellbeing of communities. The joint initiative of UNDP and HSBC aims to minimise negative impacts and creates environmental, social, and economic benefits for all stakeholders involved in bringing products and services to markets.

Financial Literacy Programme



HSBC in partnership with British Council is supporting 'Financial Literacy Skills Programme' on 'Understanding Finance by the youth'. The objective of the programme is to create awareness and promote financial education to children, parents and school leaders and empowering them to make a positive change for a sustainable future. The programme will promote positive financial culture in students (class VI and VII) from 20 schools to ensure a financial literate population capable of making informed decision.

Under this programme, a new curriculum will be developed and classroom work will be organised. Additionally, teacher training will be given both in Dhaka and Chattogram and Global Money Week will be observed through various activities.

IMPACT by end of 2019:

- 3,000 students participated to the different activity designed for the programme
- 500 parents, teachers and school leaders have an increased understanding on the importance of financial literacy
- Global Money Week celebrated through different events and engaging relevant partners
- 2,000 students from 20 schools will show their increased understanding on financial matters, money management and social entrepreneurship
- Community showcasing events will be organised to showcase their projects in 20 schools in Dhaka and Chattogram.

HSBC-Prothom Alo Language Competition



HSBC – Prothom Alo Language Competition focuses on helping students learn and practice Bangla language in its correct form. With partnership of The Daily Prothom Alo, the leading Bangla newspaper in Bangladesh, the programme has been running for the last 14 years for the school and college going students of Bangladesh. The programme started as a quiz competition and then gradually transformed into one of the most anticipated festive educational competition in Bangladesh.

IMPACT so far:

- Total Schools covered: more than 1500
- Total Students benefitted: more than 155,000
- Total Districts covered: 42 (all over Bangladesh)

HSBC-IBA Business Case Competition



This programme was launched in 2013 in partnership with the Institute of Business Administration (IBA), for the undergraduate business school students of Bangladesh. IBA is the pioneer and top business school of Bangladesh. HSBC-IBA Business Case Competition is a regional contest designed to encourage young talent to unleash the power of their potential.

The competition is open for all undergraduate business school students in Bangladesh to utilise their theoretical and analytical skills in solving practical business scenarios. The students get the opportunity to learn field work of the business organisation, complex case studies of business and develop communication skills.

Apart from prize money, the winning team also gets the opportunity to compete in the regional grand finale in Hong Kong with more than 15 country winning teams.

Other Community Investment Programmes

Women Entrepreneurship Programme at Sitakunda

HSBC in partnership with Young Power in Social Action (YPSA) supports the programme on 'Protect Environment through Women Entrepreneurship Development Program in Sitakunda'. This programme is designed to develop 400 women entrepreneurship in Sitakunda area of Chattogram.

Supporting young mothers and children

HSBC supports The Sreepur Village programme on 'Further Development of Education Programme of Shishu Polli Plus' through general, environmental, and science, physical and sports education. 262 children and 133 young mothers are the beneficiaries of this project.

Supporting underprivileged children with neuro-developmental disabilities

HSBC supports SEID (Society for Education and Inclusion of the Disabled) for the programme on 'Facilitating health and wellness of underprivileged children with neuro-developmental disabilities through active lifestyle'. The objectives of the programme include facilitating active living and healthy wellbeing of children with neuro-developmental disabilities and to develop the functional mobility through ensuring required therapeutic treatment.

Health and Education support for SOS Children's of Bangladesh

HSBC supports SOS Children Village in Dhaka, Rajshahi, Khulna, Chattogram, Bogura and Sylhet. Through this project 1020 children is getting education, health, hygiene and nutrition support. The project objective is to continuing and enhancing the quality education for the children of SOS Bangladesh. Additionally, it supports to give age appropriate interactive care to the children at their early age and proving children necessary stimulation to families and community.

HSBC support 'WASH' facilities in Savar area

In 2018, HSBC in partnership with WaterAid started to work in six schools in Savar Upazila of Dhaka district to ensure WASH access to more than 1,800 students of communities populated by factory workers. The project will sensitise major stakeholders including parents, teachers and School Management Committees about managing clean, accessible and inclusive WASH facilities for good learning environment and better educational attainment.

HSBC's support for disaster management

HSBC is responsive to support disaster management in Bangladesh. The Bank has supported Rana Plaza victims, Rohingya victims and impacted people of flood affected areas from time to time. Recently, it has extended it support to provide safe drinking water and improved sanitation access to 2,600 affected people from river erosion in Naria Upazila under Shariatpur district. The project will include installation of 22 deep tube-wells with water quality test, construction of 65 improved toilets, and health and hygiene practice promotion.