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FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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 2019 and profit and loss account, cash flow statement and statement of changes in equity for the year then ended, summary of significant accounting policies, other explanatory notes and annexures thereto.

In our opinion, the accompanying financial statements of the Bank give a true and fair view of the financial position of the Bank as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as explained in note 3 and comply with the Banking Companies Act, 1991 (as amended up to date), rules and regulations issued by the Bangladesh Bank and other applicable laws and regulations.

Basis for Opinion

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

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.

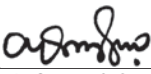
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude 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 2,500 person hours; and
- (xi) Capital to Risk-weighted Asset Ratio (CRAR) as required by Bangladesh Bank has been maintained adequately during the year.

Dhaka, 27 February 2020


A. Qasem & Co.
Chartered Accountants

Balance Sheet as at 31 December 2019

PROPERTY AND ASSETS	Notes	2019 BDT	2018 BDT
Cash	5		
In hand (including foreign currencies)		941,516,611	1,591,297,506
With Bangladesh Bank and its agent bank(s) (including foreign currencies)		29,142,330,262	44,161,418,654
		30,083,846,873	45,752,716,160
Balance with other banks and financial institutions	6		
In Bangladesh		116,777,183	154,562,977
Outside Bangladesh		8,591,621,322	5,491,332,649
		8,708,398,505	5,645,895,626

	Notes	2019 BDT	2018 BDT
Money at call on short notice	7	-	-
Investments	8		
Government securities		34,807,662,873	28,492,063,132
Others		6,000,000	6,000,000
		34,813,662,873	28,498,063,132
Loans and advances	9		
Loans, cash credits, overdrafts etc.		128,561,825,249	114,356,514,996
Bills purchased and discounted		104,369,288,118	108,711,957,831
		232,931,113,367	223,068,472,827
Fixed assets including premises, furniture and fixtures	10	266,899,914	292,843,266
Other assets	11	3,906,097,232	3,544,181,815
Non - banking assets		-	-
Total assets		310,710,018,764	306,802,172,825

LIABILITIES AND CAPITAL

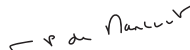
Liabilities

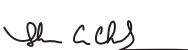
Borrowings from other banks, financial institutions and agents	12	132,716,616,440	141,214,980,319
Deposits and other accounts	13		
Current accounts and other accounts		50,949,253,734	41,780,413,368
Bills payable		2,546,982,932	3,152,552,761
Saving deposits		21,995,379,393	19,871,514,757
Term deposits		53,033,467,753	55,652,517,604
		128,525,083,812	120,456,998,490
Other liabilities	14	11,222,540,724	10,496,161,652
Total liabilities		272,464,240,976	272,168,140,460
Capital/shareholders' equity			
Fund deposited with Bangladesh Bank	15	3,135,747,494	3,099,690,272
Other reserves	16	184,917,261	(51,848,810)
Profit and loss account	17	34,925,113,033	31,586,190,903
Total shareholders' equity		38,245,777,788	34,634,032,365
Total liabilities and shareholders' equity		310,710,018,764	306,802,172,825

OFF BALANCE SHEET ITEMS

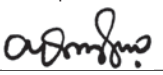
Contingent liabilities	18		
Acceptances and endorsements		21,422,845,815	20,505,809,793
Letters of guarantee		73,169,851,691	57,066,729,054
Irrevocable letters of credit		54,801,382,077	62,805,708,045
Foreign exchange contracts - Spot and Forward		3,641,097,437	5,094,357,828
Total		153,035,177,020	145,472,604,720
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		153,035,177,020	145,472,604,720

The annexed notes 1 to 34 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


A. Qasem & Co.
Chartered Accountants

Dhaka, 27 February 2020



FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

Bangladesh Branches

Profit and Loss Account For the year ended 31 December 2019

	Notes	2019 BDT	2018 BDT
Interest income	19	16,490,308,519	13,084,707,532
Interest paid on deposits and borrowings	20	(6,760,643,066)	(4,925,150,919)
Net interest income		9,729,665,453	8,159,556,613
Income from investments	21	1,172,702,519	1,136,268,380
Commission, exchange and brokerage	22	4,140,092,102	3,923,966,760
Other operating income	23	10,904,366	35,324,256
Total operating income		15,053,364,440	13,255,116,009
Salaries and allowances	24	2,683,337,360	2,588,251,877
Rent, taxes, insurance, electricity etc.		325,441,774	625,660,862
Legal and professional expenses	25	23,016,951	31,614,344
Postage, stamp, telecommunication etc.		80,742,185	92,230,721
Auditors' fee		1,200,000	1,200,000
Stationery, printings and advertisements etc.		116,895,185	132,974,922
Chief Executive Officer's salary and allowances		88,256,453	67,714,020
Depreciation, impairment and repair of Bank's assets	26	752,776,514	372,300,872
Other operating expenses	27	1,512,937,654	1,320,939,658
Total operating expenses		5,584,604,076	5,232,887,276
Profit before provision		9,468,760,364	8,022,228,733
Specific provision for classified loans and advances	14.3	78,810,375	105,939,150
General provision for unclassified loans and advances and off balance sheet exposures	14.3	569,510,275	326,133,407
Other provision		-	-
Total provision		648,320,650	432,072,557
Profit before tax		8,820,439,714	7,590,156,176
Tax			
Current year		3,944,145,102	3,292,521,736
Prior year		40,104,714	(153,439,571)
Deferred tax		(75,352,099)	(225,794)
Profit after tax for the year	28	3,908,897,717	3,138,856,371
	17	4,911,541,997	4,451,299,805

The annexed notes 1 to 34 form an integral part of these financial statements.

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Chief Executive Officer, Bangladesh

Farhanul Gani Choudhury
Chief Financial Officer, Bangladesh
As per our report of same date

Dhaka, 27 February 2020

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Chartered Accountants

Cash Flow Statement For the year ended 31 December 2019

	Notes	2019 BDT	2018 BDT
A Cash flow from operating activities			
Interest received		16,501,520,240	13,071,452,105
Interest paid		(6,959,796,599)	(4,253,539,138)
Dividends receipts		7,500,000	7,500,000
Commission, exchange and brokerage received		4,102,660,655	3,901,286,860
Other income		474,958	20,959,379
Cash paid to employees		(2,704,907,479)	(2,580,867,535)
Cash paid to suppliers		(990,929,905)	(1,034,574,736)
Cash paid for other operating expenses		(630,914,577)	(473,890,353)
Operating profit before changes in operating assets and liabilities		9,325,607,293	8,658,326,582
(Increase)/decrease of operating assets:			
Loans and advances to customers		(8,181,526,651)	(41,105,647,239)
Other assets		(561,869,302)	4,486,786,519
Increase/(decrease) of operating liabilities:			
Customers deposits		8,036,386,570	20,034,345,444
Borrowing from other banks and financial institutions		(10,084,885,357)	32,445,758,223
Other liabilities		(1,092,206,588)	(5,100,640,123)
		(11,884,101,328)	10,760,602,824
Cash receipt from operating activities		(2,558,494,035)	19,418,929,406
Advance income tax paid	14.5	(3,466,886,788)	(2,861,011,433)
Net cash receipt from operating activities		(6,025,380,823)	16,557,917,973
B Cash flow from investing activities			
Income from investments		1,329,231,147	1,210,006,200
Investments made during the year		(19,485,786,234)	(19,485,786,234)
Proceeds from sale of investments		13,939,492,943	23,246,973,953
Purchase of property, plant and equipment	10	(78,782,360)	(97,206,535)
Proceeds from sale of property, plant and equipment		10,611,290	38,012,601
Net cash used in investing activities		(4,285,233,214)	4,911,999,985
C Cash flow from financing activities			
Cash remitted to head office	17	(1,572,619,867)	(1,752,956,468)
Net cash used in financing activities		(1,572,619,867)	(1,752,956,468)
D Net increase in cash and cash equivalents (A+B+C)		(11,883,233,904)	19,716,961,490
E Gain/(Loss) on revaluation of foreign currency deposited with Bangladesh Bank as capital and cash and cash equivalents		46,173,944	27,108,505
F Net increase in cash and cash equivalents (D+E)		(11,837,059,960)	19,744,069,995
G Opening cash and cash equivalents		58,392,251,907	38,648,181,912
H Closing cash and cash equivalents (F+G)	30	46,555,191,947	58,392,251,907

Francois de Maricourt
Chief Executive Officer, Bangladesh

Farhanul Gani Choudhury
Chief Financial Officer, Bangladesh
As per our report of same date

Dhaka, 27 February 2020

A. Qasem & Co.
Chartered Accountants

Statement of Changes in Equity For the year ended 31 December 2019

Particulars	Fund deposited with Bangladesh Bank (Note 15) BDT	Other reserve (Note 16) BDT	Profit and loss account (Note 17) BDT	Total BDT
Balance at 01 January 2018	3,072,581,767	(126,773,148)	28,887,847,566	31,833,656,185
Exchange difference	27,108,505	-	-	27,108,505
Net profit for the year	-	-	4,451,299,805	4,451,299,805
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)	31,586,190,903	34,634,032,365
Exchange difference	36,057,222	-	-	36,057,222
Net profit for the year	-	-	4,911,541,997	4,911,541,997
Unrealised interest on amortisation of HTM Securities (net of deferred tax assets/liabilities)	-	190,242,243	-	190,242,243
Unrealised interest on revaluation of HFT Securities (net of deferred tax assets/liabilities)	-	-	-	-
Actuarial gain/(loss) (net of deferred tax assets/liabilities)	-	46,523,828	-	46,523,828
Profit remitted to head office	-	-	(1,572,619,867)	(1,572,619,867)
Balance at 31 December 2019	3,135,747,494	184,917,261	34,925,113,033	38,245,777,788

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Dhaka, 27 February 2020

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Notes to the Financial Statements As at and for the year ended 31 December 2019

1 Background

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

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

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

2.2 Retail Banking: HSBC offers a wide range of personal banking and other related financial services focusing primarily on high-net-worth customers under the 'Select' proposition and payroll banking solutions for salaried customers under the 'CEPS' (Corporate Employee Privilege Scheme) proposition. HSBC Retail Banking operates seven branches and thirty ATM booths across Dhaka, Chattogram and Export Processing Zones (EPZ).

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

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

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

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

In Euromoney Trade Finance Survey 2020, HSBC in Bangladesh has been voted the Best Trade Finance Bank and Best in Service for Trade Finance for third consecutive years. Currently, HSBC Bangladesh operates in both the major commercial hubs (i.e. Dhaka and Chattogram) and has presence in all eight Export Processing Zones (EPZs) of the country through Business Development Offices (in Dhaka, Chattogram, Cumilla, Mongla, Adamjee, Karnaphuli, Ishwardi and Nilphamari).

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

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

2.6 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 obliges banks to prepare their financial statements under such financial reporting standards. Due to the unavailability of any financial reporting standards by FRC, 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.

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

i) Investment in shares and securities

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

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

ii) Revaluation gains/losses on Government securities

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

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

iii) Repo and reverse repo transactions

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

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

iv) Provision on loans and advances/investments

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

Bangladesh Bank: As per BRPD circular No. 24 (17 November 2019), BRPD circular No.6 (19 May 2019), BRPD circular No. 4 (16 May 2019), BRPD circular No. 3 (21 April 2019), BRPD circular No.15 (27 September 2017), BRPD circular No.16 (18 November 2014), BRPD circular No.14 (23 September 2012), BRPD circular No. 19 (27 December 2012), 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.



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Bangladesh Branches

viii) Financial guarantees

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

Bangladesh Bank: 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.

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 existing in the standard format.

xi) Cash flow statement

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

Bangladesh Bank: As per BRPD 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.

xvi) Name of Financial Statements

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

Bangladesh Bank: As per BRPD 14, statement of financial position is defined as 'Balance Sheet' whilst statement of profit or loss and other comprehensive income is defined as 'Profit & Loss Account'.

3.2 Basis of measurement

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

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

3.3 Functional and presentation currency

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

3.4 Use of estimates and judgments

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

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

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

- Provisions on loans and advances - as explained in note 4.3
- 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 2019 to 31 December 2019. These financial statements are authorised for issue by management of the Bank on 27 February 2020.

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. 24 (17 November 2019), BRPD circular No.6 (19 May 2019), BRPD circular No.4 (16 May 2019), BRPD circular No. 3 (21 April 2019), 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:	2019	2018
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%	1.00%
Specific provision on:		
Substandard loans and advances/investments other than agricultural loans	20%	20%
Doubtful loans and advances/investment other than agricultural loans	50%	50%
Substandard and doubtful agricultural loans	5%	5%
Bad/loss and advances/investments	100%	100%

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

4.4 Loan write-off

Loans are normally written off, when there is no realistic prospect of recovery of these amounts and in accordance with BRPD circular No.01 (06 February 2019), BRPD circular No.13 (07 November 2013) and BRPD circular No.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 monthly basis by management in Risk Management Meeting (RMM) and certified by the Bank's external auditors on a semi-annual basis in accordance with Bangladesh Bank Foreign Exchange Policy Department (FEPD) circular No. 677 (13 September 2005).

4.6 Provisions for off balance sheet exposures

As per BRPD circular No.14 (23 September 2012) the Bank has recognised 1% General Provision on the following off balance sheet exposures as defined in BRPD circular No.10 (24 November 2002) considering the exemption as provided through BRPD circular No.01 (03 January 2018), BRPD circular No.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
- Motor vehicles	5 years	20% pa
- Computers	4 years	25% pa

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

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

4.10 Intangible assets

Intangible assets include purchased computer software which are stated at cost less any impairment losses and amortisation calculated on a straight-line basis. In accordance with the provisions of IAS 38 the cost of purchased software which is not an integral part of the related hardware is booked under intangible assets. Intangible

assets with finite useful life are amortised, generally on straight-line basis, over their useful lives as follows:

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

4.11 Leases

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

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

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

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

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

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

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

Summary of IFRS 16: (Figures in BDT)

Particulars	Opening Balance	Addition	Depreciation/ interest expense	Accumulated Depreciation/ Lease Payment	Closing Balance
ROU Assets	912,158,773	65,084,116	293,866,209	293,866,209	683,376,680
Lease Liabilities	573,957,834	53,344,156	49,354,080	202,003,440	474,652,630

Closing lease liabilities of BDT474,652,630 as per IFRS 16 is comprised of current liabilities of BDT160,325,705 and long-term liabilities of BDT314,326,925. In addition to the lease liabilities, short term lease expenses of BDT35,429,240 is reported under Other operating expenses in profit and loss account (comprises of short term lease expenses of BDT33,466,381 and low value lease expenses of BDT1,962,859).

4.12 Deposits by customers and banks

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

4.13 Provisions for liabilities and charges

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

4.14 Capital adequacy

According to Sub-section 2 of Section 13 of the Bank Company Act 1991, as amended by BRPD circular No.11 (14 August 2008) and BRPD circular No. 18 (21 December 2014) all banks are required to maintain with Bangladesh Bank the higher of BDT 4 billion or the minimum capital requirement calculated as 10% of Risk Weighted Assets (RWA). In addition to minimum capital requirement, Capital Conservation Buffer (CCB) at the rate of 2.50% of the total RWA is to be maintained in the form of Common Equity Tier-1 Capital (CET-1). The banks incorporated outside Bangladesh are required to deposit the required capital in the form of cash or in unencumbered approved securities. Note 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.



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Bangladesh Branches

Long term employee benefits

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

Post-employment benefits

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

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

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

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

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

4.19 Operating expenses

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

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

IFRS 16 supersedes IAS 17 Leases, International Financial Reporting Interpretations Committee (IFRIC) 4 Determining whether an Arrangement contains a Lease, Standard Interpretation Committee (SIC) 15 Operating Leases-Incentives and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

The bank has adopted IFRS 16 using the retrospective method of adoption with cumulative effect in accordance with Para C8 (b) (ii) of IFRS 16 with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The bank elected to use the transition practical expedient not to reassess whether a contract is, or contains a lease at 1 January 2019. Instead, the bank has applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

4.24 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 2019 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 2020 and earlier application is permitted. However, the Bank has not early applied the following new standard in preparing these financial statements.

(a) IFRS 17 Insurance contract

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

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

	2019 BDT	2018 BDT
Local currency	923,439,570	1,582,102,166
Foreign currencies	18,077,041	9,195,340
	<u>941,516,611</u>	<u>1,591,297,506</u>

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

Bangladesh Bank - Local currency	10,491,733,328	20,208,666,124
Bangladesh Bank Amanah - Local currency	2,500,000	5,000,000
Total - Local currency (Annexure - E)	10,494,233,328	20,213,666,124

Bangladesh Bank - Foreign currencies clearing and capital accounts (Annexure - E)	18,648,096,934	23,947,752,530
	29,142,330,262	44,161,418,654
	<u>30,083,846,873</u>	<u>45,752,716,160</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 2019 has been calculated on the basis of ATDTL of the month of October 2019).

According to DOS Circular No 26 (19 August 2019) banks having OBU operations, are required to maintain CRR for both Onshore and Offshore operations. HSBC Bangladesh has taken dispensation from Bangladesh Bank from the requirement of maintaining CRR and SLR for OBU operation up to 31 December 2019.

Portrayed below in note 5 (iv) and (v), the bank’s compliance with the CRR requirement on onshore basis, based on the cash balances of period end and of the last two weeks of the financial year ended on 31 December 2019. In note 5 (vi), the Bank demonstrates compliance with the SLR requirement on onshore basis, based on period end cash balances and holding of government securities on 31 December 2019.

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

	2019 BDT	2018 BDT
Required reserve	6,271,471,348	5,848,569,114
Actual reserve held with Bangladesh Bank	10,687,824,600	20,393,571,633
Surplus	4,416,353,252	14,545,002,519

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

Required reserve	6,898,618,483	6,433,426,026
Bi-weekly average reserve held with Bangladesh Bank (Annexure - D)	9,083,858,244	17,284,692,998
Surplus	2,185,239,761	10,851,266,972

(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	16,305,206,510	15,206,279,698
Actual reserve held with Bangladesh Bank	39,537,362,005	44,041,503,350
Surplus	23,232,155,495	28,835,223,652

6 Balance with other banks and financial institutions

In Bangladesh - current account		
Sonali Bank local office	5,132,769	54,121,011
United Commercial Bank	1,022,855	1,071,727
Standard Chartered Bank	6,432,074	446,156
Pubali Bank Limited	49,960,815	50,000,000
	62,548,513	105,638,894

Short term deposit		
IFC Bank Limited	12,638,972	12,270,525
Prime Bank Limited	8,569,676	4,569,775
Sonali Bank	28,244,378	27,411,331
United Commercial Bank	4,775,644	4,672,452
	54,228,670	48,924,083
	<u>116,777,183</u>	<u>154,562,977</u>

Outside Bangladesh - current account		
HSBC Hong Kong - HKD	36,386,182	20,716,281
HSBC Hong Kong Global ATM settlement account	18,260,399	18,518,044
HSBC Hong Kong - CNY	39,545,255	3,461,464
HSBC Hong Kong-Settlement account	266,484,357	172,453,743
HSBC Japan	100,695,672	40,927,188
HSBC Singapore	3,150,645	887,808
HSBC India	633,207,080	1,437,999,096
Credit Suisse AG Switzerland	345,561,803	222,892,999
HSBC Bank PLC UK	645,199,328	200,886,709
HSBC Bank USA	2,605,509,271	1,300,360,560
SCB Pakistan	568,634,706	70,262,248
HSBC Sri Lanka	157,334,588	204,804,267
HSBC Bank Australia TT account	2,307,125	621,796
HSBC Bank Australia DD account	26,391	26,271
HSBC Bank Canada	2,920,521	1,534,613
HSBC France	3,100,618,954	850,285,425
Danske Bank Denmark	64,180	50,475
HSBC Bank PLC UK	-	878,382,099
HSBC Bank India	65,553,673	65,943,865
HSBC Dubai	161,192	317,695
(For detail see Annexure - B)	8,591,621,322	5,491,332,649
	<u>8,708,398,505</u>	<u>5,645,895,626</u>

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

	2019 BDT	2018 BDT
Current account (including foreign currency nostro)	8,654,169,835	5,596,971,543
Short term deposit account	54,228,670	48,924,083
	<u>8,708,398,505</u>	<u>5,645,895,626</u>

6.2 Maturity grouping of balance with other banks and financial institutions

Payable on demand	8,654,169,835	5,596,971,543
Payable within one month	54,228,670	48,924,083
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>8,708,398,505</u>	<u>5,645,895,626</u>

7 Money at call on short notice

	-	-
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8 Investments

Held to Maturity Securities (HTM)		
91 day Treasury bills	4,925,039,354	-
182 day Treasury bills	2,559,241,928	494,039,844
364 day Treasury bills	7,208,866,559	5,326,902,823
2 year Government bonds	1,584,817,028	999,859,615
5 year Government bonds	-	1,092,398,696
	<u>16,277,964,869</u>	<u>7,913,200,978</u>

Held for Trading Securities (HFT)		
14 day Treasury bills	-	2,498,965,203
91 day Treasury bills	2,836,883,615	4,492,672,016
182 day Treasury bills	4,020,317,365	3,583,883,835
364 day Treasury bills	10,311,504,662	5,851,342,176
2 year Government bonds	1,359,968,762	3,300,229,019
5 year Government bonds	-	849,767,005
	<u>18,528,674,404</u>	<u>20,576,859,254</u>

Prize bonds

	1,023,600	2,002,900
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Government securities (HTM, HFT, Prize bonds)

	34,807,662,873	28,492,063,132
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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>34,813,662,873</u>	<u>28,498,063,132</u>

8.1 Maturity grouping of investments

Payable on demand	1,023,600	2,002,900
Payable within one month	11,885,082,718	13,300,085,022
More than one month but less than three months	7,534,798,712	2,848,087,310
More than three month but less than one year	15,386,757,843	12,341,887,900
More than five years	6,000,000	6,000,000
	<u>34,813,662,873</u>	<u>28,498,063,132</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
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2019			
Securities sold under repo:			
i) with Bangladesh Bank	987,440,000	1,480,786,500	6,762,264
ii) with other banks and financial institutions	-	-	-

Securities purchased under reverse repo:			
i) with Bangladesh Bank	-	-	-
ii) with other banks and financial institutions	-	-	-

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	-	-	-

9 Loans and advances

	2019 BDT	2018 BDT
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Loans, cash credits, overdrafts:		
In Bangladesh:		
Staff loans	1,201,508,702	1,148,661,660
Home mortgage loans	1,453,509,613	1,770,872,388
Car loans	5,680,605	5,400,806
Personal loans	2,531,486,927	3,175,943,876
Overdraft for retail	312,593,008	268,405,403
Overdraft for corporate	5,378,532,037	6,251,120,031
Term loans	41,737,452,644	32,924,614,888
Import loans	45,264,805,665	30,312,022,538
Working Capital	30,676,256,048	38,499,473,406
	128,561,825,249	114,356,514,996
Outside Bangladesh:	-	-
Bills purchased and discounted (note 9.10)	128,561,825,249	114,356,514,996
	104,369,288,118	108,711,957,831
	<u>232,931,113,367</u>	<u>223,068,472,827</u>

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

Payable on demand	4,918,134,227	3,532,787,161
Payable within one month	33,941,673,063	37,553,509,072
More than one month but less than three months	72,321,958,823	61,983,674,581
More than three months but less than one year	79,844,568,069	84,371,293,917
More than one year but less than five years	35,124,790,555	21,233,344,366
More than five years	6,779,988,630	14,393,863,730
	<u>232,931,113,367</u>	<u>223,068,472,827</u>

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

Advances to allied concerns of directors	-	-
Advances to the chief executive officer	-	-
Advances to other senior executives and staff of the Bank	1,201,508,702	1,148,661,660
Advances to customers’ group	154,037,425,046	25,395,772,810
Industrial advances	77,692,179,619	196,524,038,357
	<u>232,931,113,367</u>	<u>223,068,472,827</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	102	92
Amount of outstanding advances	100,605,135,635	38,501,171,660
Amount of classified advances	-	-



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	2019 BDT	2018 BDT
9.4 Cash collateral against total outstanding loans and advances as at 31 December*	2,080,750,606	3,705,856,953

*Comparative data for these notes are based on HSBC Bangladesh onshore data only

9.5 Loans and advances including bills purchased and discounted		
Loans	227,239,988,322	216,548,947,392
Overdrafts	5,691,125,045	6,519,525,435
	232,931,113,367	223,068,472,827

9.6 Particulars of loans and advances industry-wise classification		
Readymade garments	41,154,796,461	43,403,968,621
Textile industries	43,074,511,291	43,052,412,287
Agriculture and agro processing	37,201,915,564	35,158,164,301
Steel and metal	18,902,599,640	18,651,027,540
Trade	3,441,666,516	4,104,431,115
Chemical and pharmaceuticals	14,875,059,585	11,331,924,607
Petroleum and coal products	2,013,311,855	2,236,347,271
Cement industries	14,580,360,269	11,049,872,673
Telecommunication	-	4,006,885,417
Non Government Organization (NGO)	4,055,521,532	1,860,941,942
Power and energy	8,370,810,259	2,638,129,978
Retail loans	4,303,270,152	5,220,622,474
Staff loans	1,201,508,702	1,148,661,660
Others	39,755,781,541	39,205,082,943
	232,931,113,367	223,068,472,827

9.7 Classification of loans and advances		
Unclassified:		
Standard	231,410,639,756	221,529,349,144
Special Mention Account	121,756,234	63,265,055
	231,532,395,990	221,592,614,199
Classified:		
Substandard	43,590,947	170,055,974
Doubtful	6,703,133	28,974,502
Bad/Loss	1,348,423,297	1,276,828,152
	1,398,717,377	1,475,858,628
	232,931,113,367	223,068,472,827

9.8 Particulars of loans and advances		
i) Loans considered good in respect of which the Bank is fully secured;	229,181,147,176	219,232,462,417
ii) Loans considered good against which the Bank holds no security other than the debtor's personal guarantee;	2,548,457,488	2,687,348,749
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;	1,201,508,702	1,148,661,660
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;	1,201,508,702	1,217,365,442
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)	44,205,117	45,783,500
Amount of loans written off	66,485,900	229,811,807
Amount realised against the loan previously written off	30,921,037	45,711,521
b) Provision on classified loans and advances (For movement see note 14.3)	764,289,121	720,084,005
c) Interest creditable to the interest suspense account (note 14.4)	408,357,731	361,143,504
xii) Cumulative amount of written off loans		
Opening balance	2,457,197,593	2,227,385,786
Amount written off during the year	66,485,900	229,811,807
	2,523,683,493	2,457,197,593

The amount of written off loan for which law suit has been filed	1,707,537,327	1,643,927,819
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9.9 Geographical analysis of loans and advances		
Dhaka division	193,557,930,423	211,578,846,951
Chattogram division	39,373,182,944	11,489,625,876
	232,931,113,367	223,068,472,827

9.10 Bills purchased and discounted		
Inside Bangladesh	4,481,772	62,907,439
Outside Bangladesh	104,364,806,346	108,649,050,392
	104,369,288,118	108,711,957,831

9.11 Maturity analysis of bills purchased and discounted		
Payable within one month	2,561,476,924	22,245,808,512
More than one month but less than three months	17,449,842,007	34,899,930,137
More than three months but less than six months	34,794,000,528	35,754,715,657
More than six months	49,563,968,659	15,811,503,525
	104,369,288,118	108,711,957,831

10 Fixed assets including premises, furniture and fixtures					
	Furniture and fixtures	Equipment	Motor vehicles	Computers	Total
2019	BDT	BDT	BDT	BDT	BDT
Cost					
Balance as at 1 January	261,548,046	713,177,462	58,126,714	365,409,554	1,398,261,776
Addition during the year	4,077,136	32,574,932	-	42,130,292	78,782,360
Disposals/adjustment	(1,157,840)	-	(25,181,100)	(101,044)	(26,439,984)
Balance as at 31 December	264,467,342	745,752,394	32,945,614	407,438,802	1,450,604,152
Accumulated Depreciation and impairment charges					
Balance as at 1 January	217,689,191	578,272,454	41,490,017	267,966,848	1,105,418,510
Depreciation charge for the year	33,064,078	53,340,600	4,904,339	13,234,813	104,543,830
Disposals/adjustments	(975,959)	-	(25,181,099)	(101,044)	(26,258,102)
Balance as at 31 December	249,777,310	631,613,054	21,213,257	281,100,617	1,183,704,238
Net book value as at 31 December 2019	14,690,032	114,139,340	11,732,357	126,338,185	266,899,914

2018					
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

11 Other assets					
Classification of other assets	2019	2018			
	BDT	BDT			
a) Income generating other assets	-	-			
b) Non-income generating other assets					
Stamp in hand	2,963,237	4,364,437			
Intangible assets (note 11.1)	7,715,196	8,359,093			
Other debtors (note 11.2)	929,605,451	181,500,452			
Deferred tax (note 11.3)	171,880,952	254,372,901			
Rent paid in advance	206,637,067	357,625,741			
Other prepayments	90,005,366	87,797,297			
Refundable deposits	4,948,664	4,574,412			
Accrued interest on Bangladesh Bank foreign currency capital and clearing account	29,637,154	35,966,118			
Accrued coupon interest on Bangladesh government treasury bond	16,781,781	180,810,409			
Interest on balance with other banks and financial institutions	2,342,078	2,910,722			
Commission receivable	123,638,796	110,805,638			
Encashment of Bangladesh Sanchayapatra awaiting for reimbursement from Bangladesh Bank	1,443,196,708	2,196,715,894			
Net surplus asset of defined benefit schemes (Note 24.2)	178,305,586	98,742,872			
Unrealised gain on foreign exchange contracts	15,062,516	19,635,829			
Right of use assets as per IFRS 16	683,376,680	-			
	3,906,097,232	3,544,181,815			
	3,906,097,232	3,544,181,815			

11.1 Intangible assets (Purchased software)					
Cost					
Balance as at 1 January	60,306,490	47,412,554			
Acquisition during the year	4,151,250	7,140,160			
Disposals/adjustment	-	5,753,776			
Balance as at 31 December	64,457,740	60,306,490			
Accumulated amortisation					
Balance as at 1 January	51,947,397	38,461,040			
Charge for the year	4,795,147	7,732,581			
Disposals/adjustment	-	5,753,776			
Balance as at 31 December	56,742,544	51,947,397			
Net book value as at 31 December	7,715,196	8,359,093			

11.2 Other debtors					
Petty cash	-	110,000			
Security charges recoverable	20,268,808	-			
Recoverable interest on deposits	-	2,500,000			
Transitory Suspense related to ATM Others	15,112,622	523,765			
	894,224,021	178,366,687			
	929,605,451	181,500,452			

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		
	2019	2018	2019	2018	
	BDT	BDT	BDT	BDT	BDT
Specific provisions on loans and advances	125,866,613	125,866,613	-	-	125,866,613
Fixed assets	91,865,795	93,458,034	-	-	91,865,795
Right of Use Assets (IFRS 16)	78,456,768	-	-	-	78,456,768
Intangible assets	-	482,379	(1,030,051)	-	(1,030,051)
Actuarial (gain)/losses	4,789,325	35,805,211	-	-	4,789,325
Unrealised interest on amortisation of HTM securities	-	-	(128,067,498)	(128,067,498)	(128,067,498)
Unrealised interest on revaluation of HFT securities	-	-	-	-	-
Total	300,978,501	255,612,237	(129,097,549)	(1,239,336)	171,880,952
	300,978,501	255,612,237	(129,097,549)	(1,239,336)	171,880,952

Deferred tax is calculated using the tax rates expected to apply in the periods in which the assets will be realised or the liabilities settled, based on tax rates and laws enacted, by the balance sheet date. Following are the descriptions for each individual item of the deferred tax that are recognised by the Bank as a temporary difference with expected time of realisation.					
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Specific provisions on loans and advances					
As per local tax rules, provisions for bad loans are not tax allowable. Hence these impairment charges are added back to income at the time of computation of total income. However, the tax office will allow the loan write off as a tax allowable expense provided that legal action has been instigated. Therefore this item creates a temporary difference, as at some point of time in the future the Bank will either make recovery or write off the loan. In accordance with IAS 12, the Bank recognises the deferred tax on specific provision which creates a deductible temporary difference to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised.					

The deferred tax will be reversed as soon as the related bad loan is either recovered or written off. 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.					
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Year of loan classification	Year of deferred tax recognition	Deferred tax amount			
		2019	2018		
		BDT	BDT		
2011	2012	15,004,537	15,004,537		
2013	2014	110,862,076	110,862,076		
Total		125,866,613	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	2019	2018
	BDT	BDT
Balance as at 1 January	254,372,901	313,283,126
(Charge)/credit to profit and loss account (note 11.4.1)	75,352,099	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 11.4.1)	-	(12,916,543)
(Charge)/credit to reserves (note 11.4.2)	(157,844,048)	(53,624,143)
(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	171,880,952	254,372,901

11.4.1 Deferred tax (charged)/credited to profit and loss account					
	Difference between tax depreciation and accounting depreciation (fixed assets)	Difference between tax depreciation and accounting depreciation (Right of Use Assets)	Difference between tax amortisation and accounting amortisation (intangible assets)	Specific provision on loans and advances	Total
	BDT	BDT	BDT	BDT	BDT
2019					
Balance as at 1 January	93,458,034	-	482,379	125,866,613	219,807,026
(Charge)/credit to profit and loss account	(1,592,239)	78,456,768	(1,512,430)	-	75,352,099
Balance as at 31 December	91,865,795	78,456,768	(1,030,051)	125,866,613	295,159,125

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



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

	2019 BDT	2018 BDT
Payable on demand	433,490,725	130,577,599
Payable within one month	9,759,693,855	5,468,631,165
More than one month but less than three months	2,768,475,421	2,381,197,443
More than three months but less than one year	3,534,782,245	5,706,182,094
More than one year but less than five years	116,220,174,194	127,528,392,018
	<u>132,716,616,440</u>	<u>141,214,980,319</u>

13 Deposits and other accounts

Current deposits and other accounts		
Current account	43,504,371,760	34,761,489,219
Sundry deposits*	7,444,881,974	7,018,924,149
	<u>50,949,253,734</u>	<u>41,780,413,368</u>
Bills payable		
Cashiers order issued	757,399,213	514,748,137
Drawings payable	1,789,583,719	2,637,804,624
	<u>2,546,982,932</u>	<u>3,152,552,761</u>
Saving deposits	21,995,379,393	19,871,514,757
Term deposits		
Short term deposits	10,427,947,569	17,109,743,549
Fixed deposits	42,605,520,184	38,542,774,055
	<u>53,033,467,753</u>	<u>55,652,517,604</u>
	<u>128,525,083,812</u>	<u>120,456,998,490</u>

* Sundry deposits include BDT22,295,961 which had remained unclaimed for more than 10 years as of 31 December 2019. As per BRPD circular No. 10 (12 September 2018) unclaimed deposits for 10 years or more are required to be deposited to the Bangladesh Bank by April of the following year. Accordingly, the unclaimed amount will be deposited to Bangladesh Bank by April 2020.

13.1 Maturity analysis of deposits and other accounts

Payable on demand	76,536,548,627	80,188,896,748
Payable within one month	11,657,334,353	4,213,277,145
More than one month but less than three months	13,859,543,821	11,870,253,571
More than three months but less than one year	23,462,093,540	21,926,657,948
More than one year but less than five years	3,009,563,471	2,257,913,078
	<u>128,525,083,812</u>	<u>120,456,998,490</u>

14 Other liabilities

Accrued interest on customer deposits and borrowings	1,741,808,671	1,930,333,929
Deferred income	154,065,870	178,620,065
Obligation under finance lease - principal only (note 14.1)	-	2,328,037
Provisions for liabilities and charges (note 14.2)	861,685,107	861,943,978
Other creditors	508,610,766	338,812,618
Items in course of transmission	237,240,044	1,294,672,164
Provision for loans and advances and off balance sheet exposures (note 14.3)	4,163,532,531	3,549,817,140
Interest suspense account (note 14.4)	408,357,731	361,143,504
Interest received on non performing advances	456,104,936	386,841,599
Provision for taxation (note 14.5)	1,314,541,817	797,178,788
Payable to Head Office	882,043,971	759,015,602
Unrealised loss on foreign exchange contracts	19,896,650	35,454,228
Leasehold Liabilities under IFRS-16	474,652,630	-
	<u>11,222,540,724</u>	<u>10,496,161,652</u>

14.1 Obligation under finance leases

	Total future minimum payments BDT	Future interest charges BDT	Present value of finance lease obligation BDT
2019			
Lease obligation:			
Within one year	-	-	-
More than one year but less than five years	-	-	-
More than five years	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
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>

14.2 Provision for liabilities and charges

	2019 BDT	2018 BDT
Balance as at 1 January	861,943,978	780,368,560
Net charge to profit and loss account	927,861,716	853,748,597
Provision released	(928,120,587)	(772,173,179)
Balance as at 31 December	<u>861,685,107</u>	<u>861,943,978</u>

14.3 Provision for loans and advances and off balance sheet exposures

	General provision on loans and advances BDT	General provision on off balance sheet exposures BDT	Total general provisions BDT	Specific provision on loans and advances BDT	Total provision BDT
2019					
Balance as at 1 January	964,373,536	1,865,359,599	2,829,733,135	720,084,005	3,549,817,140
Written off (net of recovery) during the year	-	-	-	(34,605,259)	(34,605,259)
Release during the year	-	-	-	(32,703,308)	(32,703,308)
Provision made during the year	1,460,936,163	(891,425,888)	569,510,275	111,513,683	681,023,958
Balance as at 31 December	<u>2,425,309,699</u>	<u>973,933,711</u>	<u>3,399,243,410</u>	<u>764,289,121</u>	<u>4,163,532,531</u>
2018					
Balance as at 1 January	868,734,233	1,634,865,495	2,503,599,728	674,300,505	3,177,900,233
Written off (net of recovery) during the year	-	-	-	(60,155,650)	(60,155,650)
Release during the year	-	-	-	(61,797,309)	(61,797,309)
Provision made during the year	95,639,303	230,494,104	326,133,407	167,736,459	493,869,866
Balance as at 31 December	<u>964,373,536</u>	<u>1,865,359,599</u>	<u>2,829,733,135</u>	<u>720,084,005</u>	<u>3,549,817,140</u>

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

	2019 BDT	2018 BDT
Required general provision		
On loans and advances at 0.25% to 5% under different categories of unclassified loans/investments (standard/SMA)	2,425,309,699	964,373,536
On off balance sheet exposures @ 1%	973,933,711	1,865,359,599
	<u>3,399,243,410</u>	<u>2,829,733,135</u>

	2019 BDT	2018 BDT
Required specific provision		
On substandard loans and advances/investments other than agricultural loans @ 20%	4,986,380	9,185,097
On doubtful loans and advances/investment other than agricultural loans @ 50%	1,887,561	5,897,883
On substandard and doubtful agricultural loans @ 5%	-	-
On bad/loss and advances/investments @ 100%	757,415,180	705,001,025
	<u>764,289,121</u>	<u>720,084,005</u>
Total required provision	<u>4,163,532,531</u>	<u>3,549,817,140</u>
Total maintained provision	<u>4,163,532,531</u>	<u>3,549,817,140</u>
Surplus/(Shortfall)	<u>-</u>	<u>-</u>

14.4 Interest suspense account

Balance as at 1 January	361,143,504	394,035,137
Recoveries during the year	(39,160,270)	(127,319,932)
Written off during the year	(10,422,569)	(21,039,199)
Provision made during the year	96,797,066	115,467,498
Balance as at 31 December	<u>408,357,731</u>	<u>361,143,504</u>

14.5 Provision for tax net of advance income tax paid

Provision for tax		
Balance as at 1 January	3,598,054,553	3,512,396,489
Provision made during the year	3,944,145,102	3,292,521,764
Adjustments made during the year	(3,292,521,764)	(3,206,863,700)
Balance as at 31 December	<u>4,249,677,891</u>	<u>3,598,054,553</u>
Advance income tax paid		
Balance as at 1 January	2,800,875,765	2,993,288,461
Amount paid during the year	3,466,886,788	2,861,011,433
Adjustments made during the year	(3,332,626,479)	(3,053,424,129)
Balance as at 31 December	<u>2,935,136,074</u>	<u>2,800,875,765</u>
Net provision	<u>1,314,541,817</u>	<u>797,178,788</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 2019 is expected to be filed with the tax authorities by the due date of 15 September 2020.

The assessment for the accounting years 2006, 2007, 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017 and 2018 are yet to be finalised. In addition to some expenses disallowances the tax authorities have not accepted the Bank's excess profit computation for the period 2006, 2007, 2009, 2010, 2011 and 2012 on the grounds that they do not consider various other components, including retained earnings to be part of capital of the Bank. For accounting years 2013, 2014 and 2015 tax authorities disallowed some expenses in their assessment.

For accounting years 2006, 2007, 2009, 2010, 2011, 2012 and 2013 the Bank has filed reference application to the High Court against the order of Taxes Appellate Tribunal. For accounting year 2014 appeal has been filed against order of Commissioner of Taxes (Appeal) to the Appellate Tribunal. Whereas for 2015 appeal has been filed against order of Deputy Commissioner of Taxes to the Commissioner of Taxes (Appeal).

15 Capital

	2019 BDT	2018 BDT
Fund deposited with Bangladesh Bank at 1 January	3,099,690,272	3,072,581,767
Exchange difference: (USD 35,938,625 x 84.4505-83.4472); (2018: 83.4472-82.6929)	36,057,222	27,108,505
Funds deposited with Bangladesh Bank at 31 December	<u>3,135,747,494</u>	<u>3,099,690,272</u>

16 Other reserves

Unrealised interest on amortisation of HTM securities		
Opening balance	1,859,004	(7,483,386)
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	313,972,063	6,344,777
Unrealised interest on amortisation of HTM securities realised during this year	3,098,342	9,768,148
	<u>317,070,405</u>	<u>15,787,560</u>
	<u>(126,828,162)</u>	<u>(6,445,170)</u>
	<u>190,242,243</u>	<u>9,342,390</u>
	<u>192,101,247</u>	<u>1,859,004</u>
Deferred tax liabilities (note 11.4.2)	-	-

Unrealised interest on revaluation of HFT securities		
Opening balance	-	-
MTM reserve for HFT during this year	-	-
MTM reserve for HFT realised during this year	-	-
	-	-
Deferred tax assets/(liabilities) (note 11.4.2)	-	-
	-	-
	-	-

Actuarial gain/(loss):		
Opening balance	(53,707,814)	(119,289,762)
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)	77,539,714	117,947,432
	<u>(31,015,886)</u>	<u>(47,178,973)</u>
	<u>46,523,828</u>	<u>65,681,948</u>
	<u>(7,183,986)</u>	<u>(53,707,814)</u>
	<u>184,917,261</u>	<u>(51,848,810)</u>

17 Profit and loss account

Opening balance	31,586,190,903	28,887,847,566
Profit for the year	4,911,541,997	4,451,299,805
Profit remitted to head office	(1,572,619,867)	(1,752,956,468)
Closing balance	<u>34,925,113,033</u>	<u>31,586,190,903</u>

18 Contingent liabilities

Acceptances and endorsements	21,422,845,815	20,505,809,793
	<u>21,422,845,815</u>	<u>20,505,809,793</u>

Letters of guarantee:		
Money for which the Bank is contingently liable in respect of guarantees given favouring Government Bank and other financial institutions	54,578,520,553	41,884,811,624
Others	309,907,184	240,075,658
	<u>18,281,423,954</u>	<u>14,941,841,772</u>
	<u>73,169,851,691</u>	<u>57,066,729,054</u>

Others		
Irrevocable letters of credit	54,801,382,077	62,805,708,045
Foreign exchange contracts - spot and forward	3,641,097,437	5,094,357,828
	<u>58,442,479,514</u>	<u>67,900,065,873</u>
	<u>153,035,177,020</u>	<u>145,472,604,720</u>

19 Interest income and profit received

Staff loans	46,904,309	47,559,668
Home mortgage loans	155,044,630	176,208,684
Car loans	187,105	116,855
Personal loans	304,088,240	364,233,686
Overdraft	470,956,004	406,100,654
Term loans	2,887,435,885	2,131,329,392
Import loans	2,695,826,660	1,769,733,428
Working Capital	3,944,251,335	3,349,523,048
Export and import bills	5,397,744,241	4,393,775,438
Income from money market	81,251,139	45,407,278
Other correspondent bank	1,520,174	1,432,387
Income from nostro accounts	254,657	143,118
Income from inter-group lending	14,323,384	2,433,070
Income from Bangladesh Bank foreign currency account	490,520,756	396,710,826
	<u>16,490,308,519</u>	<u>13,084,707,532</u>

20 Interest and profit paid on deposits and borrowings

	2019 BDT	2018 BDT
Saving accounts	742,313,292	578,172,404
Term deposits	2,288,991,044	1,364,767,657
Marginal deposit	3,434,726	13,092,858
Interest paid on lease	49,354,080	1,123,709
Interest on vostro and overdrawn nostro	1,657,863	370,526
Money market call borrowing	222,222	272,917
Money market term borrowing	359,104,257	284,386,862
Borrowing from banks	3,313,455,805	2,682,963,986
Interest on repo	2,109,777	-
	<u>6,760,643,066</u>	<u>4,925,150,919</u>

21 Income from investment

Interest on treasury bills/bonds	1,165,202,519	1,081,863,045
Interest on Bangladesh Bank bills	-	46,905,335
Dividend on shares	7,500,000	7,500,000
	<u>1,172,702,519</u>	<u>1,136,268,380</u>

22 Commission, exchange and brokerage

Exchange income/loss	1,226,697,114	1,069,963,804
Commission income:		
Import LC	1,944,871,479	2,028,006,334
Export LC	456,270,300	373,839,110
Remittances	53,427,753	17,991,621
Account services	31,617,758	40,024,703
Credit facilities	281,870,978	213,043,451
Collection bills	235,890	309,612
Global custody	101,621,072	95,538,858
Other commissions and charges	95,396,271	119,919,443
	<u>2,965,311,501</u>	<u>2,888,673,132</u>
Commission paid	(51,916,513)	(34,670,176)
	<u>2,913,394,988</u>	<u>2,854,002,956</u>
	<u>4,140,092,102</u>	<u>3,923,966,760</u>

23 Other operating income

Profit/(loss) on disposals of fixed assets	10,429,408	14,364,877
Other income	474,958	20,959,379
	<u>10,904,366</u>	<u>35,324,256</u>

24 Salaries and allowances

Short term employee benefits		
Basic salary	1,173,522,744	1,051,747,530
Allowances	585,522,440	553,538,771
Bonus	453,805,136	446,973,420
Others	256,766,569	336,226,701
	<u>2,469,616,889</u>	<u>2,388,486,422</u>

Long term employee benefits		
Bonus	19,390,082	7,414,662
	<u>19,390,082</u>	<u>7,414,662</u>

Post employment benefits		
Contribution to the defined benefit plan (note 24.1)	98,931,008	107,009,000
Contribution to the defined contribution plan	95,359,381	85,341,793
	<u>194,330,389</u>	<u>192,350,793</u>
	<u>2,683,337,360</u>	<u>2,588,251,877</u>



FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

Bangladesh Branches

26 Depreciation, impairment and repair of Bank's assets

	2019 BDT	2018 BDT
Repair and maintenance	349,571,328	250,009,257
Depreciation on fixed assets (note 10)	104,543,830	114,559,034
Depreciation of ROU assets	293,866,209	-
Amortisation of intangible assets (note 11.1)	4,795,147	7,732,581
	<u>752,776,514</u>	<u>372,300,872</u>

27 Other operating expenses

Charitable donation	23,314,000	25,220,416
Subscription of corporate member fees	4,736,072	5,676,860
Training expenses	89,330,211	73,960,775
Entertainment expenses	15,246,435	22,760,390
Staff entertainment expenses	19,773,897	26,081,758
Outsourced service cost	144,756,456	125,121,140
Security expenses	77,091,943	96,508,814
Staff recruitment costs	1,427,663	1,158,430
Transportation and conveyance expenses	48,967,505	25,226,695
Staff uniform	9,520	1,291,425
Generator and motor vehicles fuel and other expenses	2,683,033	5,994,269
Other office expenses	203,556,948	152,923,066
Head office expense	882,043,971	759,015,620
	<u>1,512,937,654</u>	<u>1,320,939,658</u>

28 Tax

Profit before tax	8,820,439,714	7,590,156,176
Notional tax on profit before tax, calculated at the rates of statutory tax rate @ 40%	3,528,175,885	3,036,062,470
Deferred tax (charge)/release	(75,352,099)	(225,794)
Tax charge/(release) for prior year	40,104,714	(153,439,571)
Tax effect on allowable/non-allowable expenses	415,969,217	256,459,266
	<u>3,908,897,717</u>	<u>3,138,856,371</u>

29 Capital adequacy under Basel III*

Total Risk Weighted Assets (RWA) as on 31 December	255,213,363,412	124,620,548,943
12.50% of RWA under Basel III (including capital conservation buffer)	31,901,670,427	14,798,690,187
Required capital: The higher of 12.50% of RWA or BDT4 billion	31,901,670,427	14,798,690,187

Actual Capital maintained Common Equity Tier I

Fund deposited with Bangladesh Bank	3,135,747,494	3,099,690,272
Retained earnings	34,925,113,033	27,658,950,379
Actuarial gain/(loss)	(7,183,986)	(53,707,814)
Less: Regulatory adjustment for Deferred tax assets as per the Bangladesh Bank guideline	(294,685,170)	(249,318,905)
	37,758,991,371	30,455,613,932
Additional Tier I	-	-
Total Tier I	37,758,991,371	30,455,613,932

Tier II

General provision	3,399,243,410	2,829,733,135
Revaluation reserve on Government securities	-	16,989,823
	3,399,243,410	2,846,722,958
Total capital	41,158,234,781	33,302,336,890
Surplus	9,256,564,355	18,503,646,703

% of Capital adequacy required

Common Equity Tier - I	7.000%	6.375%
Tier - I	6.000%	6.000%
Total	12.500%	11.875%

% of Capital adequacy maintained

Common Equity Tier - I	14.80%	24.44%
Tier - I	14.80%	24.44%
Total	16.13%	26.72%

*Comparative data is based on HSBC Bangladesh onshore data only

30 Cash and cash equivalents

Cash in hand	941,516,611	1,591,297,506
Balance with Bangladesh Bank	29,142,330,262	44,161,418,654
Balance with other banks and financial institutions	8,708,398,505	5,645,895,627
Money at call on short notice	-	-
Prize bonds	1,023,600	2,002,900
14 day Treasury bills	-	2,498,965,203
91 day Treasury bills	7,761,922,969	4,492,672,016
	<u>46,555,191,947</u>	<u>58,392,251,907</u>

31 Amanah Banking

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

A separate set of financial statements for Amanah is required to prepare in accordance with the Banking Regulation and Policy Department (BRPD) Circular No 15 (9 November 2009). This is notable that the Bank discontinued Amanah business since 2013 and got dispensation from Bangladesh Bank vide letter ref no. DOS (SR)1153/127/2014-424 dated 28 December 2014 from preparing a separate set of financial statements for Amanah. However, as required by the dispensation letter of Bangladesh Bank, the Bank provided disclosures in note 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.

31.1 Amanah Balance Sheet as at 31 December

	2019 BDT	2018 BDT
Assets		
Cash in hand	-	-
Balance with Bangladesh Bank	2,500,000	5,000,000
Investments	286,715,330	339,915,908
Fixed assets	-	-
Other assets	129,803,536	73,255,409
	<u>419,018,866</u>	<u>418,171,317</u>
Liabilities		
Placement from banks and other financial institutions	-	-
Deposits and other accounts	7,835,840	14,883,249
Other liabilities	29,396,544	37,486,293
Retained earnings	381,786,482	365,801,775
	<u>419,018,866</u>	<u>418,171,317</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>

31.2 Amanah Profit and Loss Account for the year ended 31 December 2019

	2019 BDT	2018 BDT
Income from investments	31,998,499	37,806,243
Profit paid on deposits	(1,053)	(1,415)
Net investment income	<u>31,997,446</u>	<u>37,804,828</u>
Commission, exchange and brokerage	371,867	738,571
Other operating income	-	-
Total operating income	<u>32,369,313</u>	<u>38,543,399</u>
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	<u>-</u>	<u>-</u>
Profit before provision	<u>32,369,313</u>	<u>38,543,399</u>
Specific provision for classified investments	(5,673,049)	(4,593,932)
General provision for unclassified investments and off balance sheet exposures	(237,642)	(3,879,700)
Total provision	<u>(5,910,691)</u>	<u>(8,473,632)</u>
Profit before tax	<u>38,280,004</u>	<u>47,017,031</u>
Current Tax	12,947,725	15,417,359
Profit after tax for the year	<u>25,332,279</u>	<u>31,599,672</u>

31.3 Amanah Assets and Liabilities Maturities Analysis as at 31 December 2019

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	2,500,000	-	-	-	-	2,500,000
Money at call on short notice	-	-	-	-	-	-
Investment	-	-	477,612	286,237,718	-	286,715,330
Fixed assets	-	-	-	-	-	-
Other assets	-	-	-	129,803,536	-	129,803,536
Non-banking assets	-	-	-	-	-	-
Total assets	<u>2,500,000</u>	<u>-</u>	<u>477,612</u>	<u>416,041,254</u>	<u>-</u>	<u>419,018,866</u>
Liabilities						
Placement from other banks and financial institutions	-	-	-	-	-	-
Deposits and other accounts	7,835,840	-	-	-	-	7,835,840
Other liabilities (including capital/shareholders' equity)	-	-	72,816	411,110,210	-	411,183,026
Total liabilities	<u>7,835,840</u>	<u>-</u>	<u>72,816</u>	<u>411,110,210</u>	<u>-</u>	<u>419,018,866</u>
Net liquidity difference	<u>(5,335,840)</u>	<u>-</u>	<u>404,796</u>	<u>4,931,044</u>	<u>-</u>	<u>-</u>

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

Daily 5.00% of average total demand and time liabilities	2019 BDT	2018 BDT
Required reserve	412,664	772,990
Actual reserve held with Bangladesh Bank	2,500,000	5,000,000
Surplus	<u>2,087,336</u>	<u>4,227,010</u>

ii) Amanah Cash Reserve Ratio (CRR):

Bi-weekly 5.50% of average total demand and time liabilities	2019 BDT	2018 BDT
Required reserve	453,930	850,289
Bi-weekly average reserve held with Bangladesh Bank	2,500,000	5,000,000
Surplus	<u>2,046,070</u>	<u>4,149,711</u>

(iii) Amanah Statutory Liquidity Ratio (SLR):

5.50% of average total demand and time liabilities	2019 BDT	2018 BDT
Required reserve	453,930	850,289
Bi-weekly average reserve held with Bangladesh Bank	2,046,070	4,149,711
Surplus	<u>1,592,140</u>	<u>3,299,422</u>

32 Related party transactions

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

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

32.1 Transactions with key management personnel

There were no transactions between the Bank and the key management personnel of the Bank in 2019 (2018: nil)

32.2 Transactions, arrangements and agreements involving group entities

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

The disclosure of the year end balance is considered to be the most meaningful information to represent transactions during the year. The outstanding balances include loans made to or deposits by the Bank and arose in the ordinary course of business and are on substantially the same terms, including interest rates and security, as for comparable transactions with third party counterparties. Income received by the Bank from these entities during 2019 amounted to BDT69,807,991 (2018: BDT86,840,110) and expense paid to these entities during 2019 amounted to BDT3,347,950,546 (2018: BDT2,695,947,422), both of which is included in the net interest income disclosed in the profit and loss account.

32.3 Transactions with post employment benefit plans

The Bank has two post employment benefit schemes, the nature of which is disclosed in note 4.18, Employee benefits. There were no balances payable to these schemes or due from these schemes to the Bank as at the end of 2019 (2018: Nil). The total contribution to these schemes in 2019 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 2019 the provident fund had placed deposit of BDT22,140,224 (2018: BDT56,085,382) and the gratuity fund had placed deposits of BDT1,092,795,264 (2018: BDT1,022,074,178) 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 2019 amounted to BDT469,802 (2018: BDT360,394) and on deposit placed by the gratuity fund in 2019 amounted to BDT10,679,539 (2018: BDT9,944,979), both of which are included in the interest expense disclosed in the profit and loss account.

33 Events after the balance sheet date

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

34 General

34.1 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.

34.1.1 Credit risk

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

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

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

34.1.2 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 2019 year end, were as follows:

Mr. Farhanul Gani Choudhury (Chairman)	Chief Financial Officer
Mr. Francois de Maricourt	Chief Executive Officer
Mr. Md. Mahbub ur Rahman	Deputy CEO & Head of Corporate Banking
Mr. Ahmed Saiful Islam	Head of Retail Banking & Wealth Management
Mr. Bashar M Tareq	Head of Global Markets
Mr. Mohammad Omar Faruque	Head of Balance Sheet Management
Mr. Saurav Saha	Chief Risk Officer
Mr. 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.

34.1.3 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 2019 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.

34.1.4 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.



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

34.1.5 Prevention of money laundering and terrorist financing

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

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

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

The Financial Crime Compliance (FCC) department, part of the broader Compliance function of HSBC and headed by Country Anti-Money Laundering Compliance Officer or the 'CAMLCO', specialises in providing financial crime risk management advice to business lines and other functions. The department stewards over risks of money laundering and terrorist financing, sanctions evasions, bribery and corruption, tax evasion, and fraud – and guides the first line of defense to operate appropriate controls.

FCC maintains enterprise-wide governance and oversight over these risk areas, promptly drawing focus on top and emerging risks and areas of weakness. It also operates an Assurance sub-function which performs risk-based independent testing of relevant controls established to manage the aforesaid risks.

In the broader Compliance function, another specialised department, namely Financial Crime Threat Mitigation (FCTM) conducts financial crime risk related investigations and is currently enhancing capabilities to appropriately and proactively act on relevant market intelligence.

The matured organisational framework as described above, together with a consistent tone from the top and a culture of continued investment into staff development/training, has helped HSBC Bangladesh to materially improve its financial crime risk control environment over 2018-2019. Focus will remain in proactively identifying and acting on issues, further improving the control environment in line with evolving risk landscape, and maintaining the rigor of risk management which has developed over time.

34.1.6 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 (RBPM) methodology. The IT department has a Performance Level Agreement (PLA) for all global and local applications for service quality assurance which describes all the IT services with target service up-time and response time for troubleshooting or any IT related requests. The IT department provides monthly reports to 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 have ICT Steering Committee, HOST Compliance Council, Outsourcing Governance Forum to look after ICT and Cybersecurity related risk and controls, regulatory and legal requirement related to ICT security and IT Outsourcing compliance as mandate by BB ICT Security policy and Outsourcing policy. Besides, various awareness sessions are taken by Cybersecurity team to increase information security awareness among 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. There are few applications (BACH, RTGS) which do not have Disaster Recovery (DR) Site due to dependency on BB.

34.2 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.

34.3 Disclosure on risk based capital (Basel III)

To comply with international best practice and to improve risk management in the

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

34.4 Exchange rates

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

	2019	2018
	BDT	BDT
USD 1 =	84.45	83.45
HKD 1 =	10.85	10.66
SGD 1 =	62.62	60.76
GBP 1 =	110.90	105.40
AUD 1 =	59.09	58.82
EUR 1 =	94.53	95.09
CHF 1 =	86.91	84.18
JPY 1 =	0.77	0.75
CAD 1 =	64.60	61.35
NOK 1 =	9.60	9.53
AED 1 =	22.99	22.72
CNY 1 =	12.09	12.15
DKK 1 =	12.65	12.74

34.5 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 2019:

Long-term AA
Short-term ST - 1

According to CRAB, financial institutions rated in this category are adjusted 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.

34.6 BRPD circular No.06 (19 March 2015) as amended by BRPD circular No. 03 (16 February 2016) and BRPD circular No. 04 (16 May 2019) requires to pay rebate to the eligible good borrowers. Accordingly the Bank has kept adequate provision for the good borrower rebate, that shall be paid out in due course as per regulation.


34.7 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 probability of a legal obligation for payments out of WPPF is low at the current stage and hence, no provision has been made for the same.


34.8 The net amount of foreign currency exposure as at 31 December 2019 was BDT 3,850,801,276.

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

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

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


Francois de Maricourt
Chief Executive Officer, Bangladesh
Dhaka, 27 February 2020


Farhanul Gani Choudhury
Chief Financial Officer, Bangladesh

Statement of Liquidity (Assets and Liabilities Maturity Analysis) As at 31 December 2019							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*	18,603,762,022	-	-	-	11,480,084,851	30,083,846,873	
Balance with other banks and financial institutions (note 6.2)	8,708,398,505	-	-	-	-	8,708,398,505	
Money at call on short notice Investment (note 8.1)	11,886,106,318	7,534,798,712	15,386,757,843	-	6,000,000	34,813,662,873	
Loans and advances (note 9.1)	38,659,807,230	72,321,958,823	79,844,588,069	35,124,790,555	6,779,988,630	232,331,113,367	
Fixed assets	274,379	561,045	6,881,534	174,463,591	83,016,365	268,989,914	
Other assets	1,107,611,785	1,667,405,387	49,131,331	935,896,867	146,051,862	3,906,097,232	
Non-banking assets	-	-	-	-	-	-	
Total assets	79,165,960,299	81,524,723,967	95,289,038,777	36,235,151,013	18,495,144,708	310,710,018,764	
Liabilities							
Borrowings from other banks and financial institutions (note 12.4)	10,193,194,580	2,768,475,421	3,534,782,245	116,220,174,194	-	132,716,616,440	
Deposits and other accounts (note 13.1)	88,193,882,980	13,859,543,821	23,462,093,540	3,009,563,471	-	128,525,083,812	
Other liabilities (including capital/shareholders' equity)	1,091,898,159	748,777,699	3,661,688,567	40,713,143,173	3,252,810,914	49,468,318,512	
Total liabilities	99,478,965,719	17,376,796,941	30,658,564,352	159,942,880,638	3,252,810,914	310,710,018,764	
Net liquidity difference	(20,313,005,420)	64,147,927,026	64,630,474,425	(123,707,729,625)	15,242,333,794	-	

* 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 2019							Annexure - B
Bank Name	Currency name	2019		2018		Local currency	
		Foreign currency	Rate	Foreign currency	Rate		
HSBC Hong Kong	HKD	3,354,963	10.8455	36,396,182	1,944,193	10.6555	20,716,281
HSBC Hong Kong Global ATM settlement account	HKD	1,683,687	10.8455	18,260,359	1,737,892	10.6555	18,518,044
HSBC Hong Kong	CNY	3,271,584	12.0875	39,545,255	284,790	12.1546	3,461,496
HSBC Hong Kong-Settlement account	USD	3,155,510	84.4505	266,484,357	2,066,621	83.4472	172,453,743
HSBC Japan	JPY	130,176,257	0.7735	100,695,672	54,381,722	0.7526	40,927,151
HSBC Singapore	SGD	50,313	62.6209	3,150,645	14,612	60.7596	887,808
HSBC India	USD	7,497,967	84.4505	633,207,080	17,232,443	83.4472	1,437,999,096
Credit Suisse AG Switzerland	CHF	3,976,085	86.9101	345,561,803	2,647,828	84.1796	222,893,027
HSBC Bank PLC UK	GBP	5,817,827	110.9004	645,199,328	1,905,907	105.4022	200,886,709
HSBC Bank PLC UK	EUR	-	94.5254	-	9,237,562	95.0881	878,382,098
HSBC Bank USA	USD	30,852,503	84.4505	2,605,509,271	15,583,034	83.4472	1,300,360,536
SCB Pakistan	USD	6,733,349	84.4505	568,634,708	841,996	83.4472	70,262,248
HSBC Sri Lanka	USD	1,863,039	84.4505	157,334,588	2,454,298	83.4472	204,804,267
HSBC Bank Australia TT account	AUD	39,044	59.0900	2,307,125	10,571	58.8219	621,796
HSBC Bank Australia DD account	AUD	447	59.0900	26,391	447	58.8219	26,271
HSBC Bank Canada	CAD	45,206	64.6041	2,920,521	25,014	61.3492	1,534,613
HSBC France	EUR	32,801,950	94.5254	3,100,618,954	8,942,082	95.0881	850,285,430
Danske Bank Denmark	DKK	5,072	12.6548	64,180	3,963	12.7373	50,475
HSBC Bank India	EUR	693,503	94.5254	65,553,673	693,503	95.0881	65,943,865
HSBC Dubai	AED	7,011	22.9922	161,192	13,984	22.7179	317,695
Total				8,591,621,322			5,491,332,649

Financial Highlights (Onshore) As at 31 December 2019					Annexure - C
					(Figures in BDT)
Sl No	Particulars	Currency/ percentage	2019	2018	
1	Fund deposited with Bangladesh Bank as capital	BDT	3,135,747,494	3,099,690,272	
2	Total assets	BDT	176,828,264,287	167,781,627,571	
3	Total deposits	BDT	124,703,157,751	117,820,526,848	
4	Total loans and advances	BDT	94,035,233,120	83,245,637,855	
5	Total contingent liabilities	BDT	142,738,382,042	215,377,966,814	
6	Advances/deposits ratio	%	75.41	70.65	
7	Classified advances as a percentage of total advances	%	1.49	1.77	
8	Profit after tax and provisions	BDT	4,716,770,700	3,076,049,478	
9	Amount of classified loans	BDT	1,398,717,377	1,475,858,628	
10	Amount of provision against classified loans	BDT	764,289,121	720,084,005	
11	Provision surplus	BDT	-	-	
12	Interest expenses	BDT	3,446,394,097	2,242,405,469	
13	Interest bearing assets	BDT	158,083,029,529	140,341,350,834	
14	Non interest bearing assets	BDT	18,745,234,758	27,440,276,737	
15	Return on Investment (ROI)*	%	3.37	3.99	
16	Return on Average Investment (ROAI)*	%	3.54	4.04	
17	Return on Assets (ROA)*	%	2.67	1.83	
18	Return on Equity (ROE)*	%	15.31	10.02	
19	Income from investment	BDT	1,172,702,519	1,136,268,380	

Financial Highlights (Offshore) As at 31 December 2019					(Figures in BDT)
Sl No	Particulars	Currency**/ percentage	2019	2018	
1	Total assets	BDT	141,772,907,755	141,507,957,799	
2	Total deposits	BDT	3,821,926,061	2,636,471,643	
3	Total loans and advances	BDT	138,895,880,247	139,822,834,972	
4	Total contingent liabilities	BDT	10,296,794,978	10,006,189,217	
5	Classified advances as a percentage of total advances	%	-	-	
6	Profit before tax	BDT	1,316,645,761	2,292,083,795	
7	Profit after tax and provisions	BDT	194,771,297	1,375,250,327	
8	Interest expenses	BDT	3,318,528,086	2,689,146,770	
9	Interest bearing assets	BDT	141,766,106,412	141,498,742,307	
10	Non interest bearing assets	BDT	6,801,343	9,215,492	
11	Return on Assets (ROA)*	%	0.14	0.97	

** 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 As at 31 December 2019					(Figures in BDT)
Sl No	Particulars	Onshore	Offshore	Solo	
1	Total assets	176,828,264,287	141,772,907,755	310,710,018,764	
2	Total deposits	124,703,157,751	3,821,926,061	128,525,083,812	
3	Total loans and advances	94,035,233,120	138,895,880,247	232,931,113,367	
4	Total contingent liabilities	142,738,382,042	10,296,794,978	153,036,177,020	
5	Net interest income	5,847,453,829	3,882,212,972	9,729,665,453	
6	Non interest income	4,765,732,983	557,966,004	5,323,698,987	
5	Net operating income	10,613,186,813	4,440,178,976	15,053,364,440	
8	Profit before tax and provisions	6,664,074,202	2,804,686,162	9,468,760,364	
9	Profit after tax and provisions	4,716,770,700	194,771,297	4,911,541,997	
10	Total capital including retained earnings	-	-	41,158,234,781	
11	Surplus capital	-	-	9,256,564,355	
12	Capital adequacy ratio (%)	-	-	16.13	

Bi weekly average balance of Bangladesh Bank statement For the month of December 2019				Annexure - D
				(Figures in BDT)
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-19	9,982,515,319	2,500,000	9,985,015,319	
16-Dec-19	9,982,515,319	2,500,000	9,985,015,319	
17-Dec-19	9,273,204,125	2,500,000	9,275,704,125	
18-Dec-19	8,462,644,218	2,500,000	8,465,144,218	
19-Dec-19	8,189,924,688	2,500,000	8,192,424,688	
20-Dec-19	8,189,924,688	2,500,000	8,192,424,688	
21-Dec-19	8,189,924,688	2,500,000	8,192,424,688	
22-Dec-19	9,026,428,577	2,500,000	9,028,928,577	
23-Dec-19	8,903,503,538	2,500,000	8,906,003,538	9,083,858,244
24-Dec-19	8,219,244,390	2,500,000	8,221,744,390	
25-Dec-19	8,219,244,390	2,500,000	8,221,744,390	
26-Dec-19	9,267,759,699	2,500,000	9,270,259,699	
27-Dec-19	9,267,759,699	2,500,000	9,270,259,699	
28-Dec-19	9,267,759,699	2,500,000	9,270,259,699	
29-Dec-19	8,570,087,899	2,500,000	8,572,587,899	
30-Dec-19	10,685,324,604	2,500,000	10,687,824,604	
31-Dec-19	10,685,324,604	2,500,000	10,687,824,604	



FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

Bangladesh Branches

	As per Bangladesh Bank statement	As per Bank's general ledger		Reconciling difference
	EUR	EUR	BDT	EUR
EUR clearing account	6,229,517	4,780,806	451,907,850	1,448,711
Bank credited but Bangladesh Bank had not debited				-
Bank debited but Bangladesh Bank had not credited				-
Bangladesh Bank credited but Bank had not debited				1,448,711
Bangladesh Bank debited but the bank had not credited				-
Total (BDT)		18,648,096,934		1,448,711

Annexure - F
Disclosures on risk based capital under Pillar - III of Basel III for the year ended 31 December 2019

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).

Comparative data of 2018 Pillar III disclosure is based on HSBC onshore data only (in line with capital adequacy report under BASEL III, as submitted to Bangladesh Bank) since there was no regulatory requirement for capital maintenance against offshore exposure prior to 2019.

The major highlights of the Bangladesh Bank regulations are:

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

2 Scope of application

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

3 Capital structure

Qualitative disclosures:

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

- The Bank has to maintain at least 4.5% of total Risk Weighted Assets (RWA) as Common Equity Tier I capital.
- Tier I capital will be at least 6% of the total RWA.
- Minimum Capital to Risk-weighted Asset Ratio (CRAR) will be 10% of the total RWA.
- Additional Tier I capital can be maximum up to 1.5% of the total RWA or 33.33% of CET 1, whichever is higher.
- Tier II capital can be maximum up to 4% of the total RWA or 88.89% of CET1, whichever is higher.
- In addition to minimum CRAR, Capital Conservation Buffer (CCB) @ 2.50% of the total RWA will be maintained in the form of CET1 in a phased manner from 2016 to 2019 and @2.50% of the total RWA afterwards.

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

Tier II capital consists of general provision and revaluation reserve for Held to Maturity (HTM) and Held for Trading (HFT) securities. According to BRPD circular no. 05 (31 May 2016) the full general provision maintained against unclassified loans and advances (except Fast Track Electricity Project LC) will be considered as Tier II capital. Revaluation reserve for securities shown as Tier II capital as on 31 December 2014 will be nullified in a phased manner at the rate of 20% starting from 2015 and will be fully adjusted by 2020.

Quantitative disclosures:	2019	2018
The details of capital structure are provided as under:	BDT	BDT
Common Equity Tier I		
Fund deposited with Bangladesh Bank	3,135,747,494	3,099,690,272
Retained earnings	34,925,113,033	27,658,950,379
Actuarial gain/(loss)	(7,183,986)	(53,707,814)
Less: Regulatory adjustment for deferred tax assets as per the Bangladesh Bank guideline	(294,685,170)	(249,318,905)
	37,758,991,371	30,455,613,932
Additional Tier I	-	-
Total Tier I	37,758,991,371	30,455,613,932
Tier II		
General provision	3,399,243,410	2,829,733,135
Revaluation reserve for securities	-	16,989,823
	3,399,243,410	2,846,722,958
Total capital	41,158,234,781	33,302,336,890

4 Capital adequacy

Qualitative disclosures:

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

The Bank has a capital adequacy ratio of 16.13% as against the minimum regulatory requirement of 12.50% including capital conservation buffer. Tier I capital adequacy ratio is 14.80% against the minimum regulatory requirement of 6%. The Bank's policy is to manage and maintain its capital with the objective of maintaining a strong capital ratio. The Bank maintains capital levels that are sufficient to absorb all material risks. The Bank also ensures that the capital levels comply with all regulatory requirements, satisfy external rating agencies and other stakeholders including depositors. The whole objective of the capital management process in the Bank is to ensure that the Bank remains adequately capitalised at all times.

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

Quantitative disclosures:	2019	2018
Position of various risk weighted assets are presented below:	BDT	BDT
Risk Weighted Assets		
On balance sheet items	205,656,181,467	59,518,679,338
Off balance sheet items	24,968,198,532	47,172,763,239
Total credit risk	230,624,379,999	106,691,442,577
Market risk	4,141,146,946	2,153,824,676
Operational risk	20,447,836,467	15,775,281,690
Total risk weighted assets	255,213,363,412	124,620,548,943
Detail of capital adequacy		
Capital requirement for credit risk	28,828,047,500	12,669,608,806
Capital requirement for market risk	517,643,368	255,766,680
Capital requirement for operational risk	2,555,979,558	1,873,314,701
Total required capital	31,901,670,426	14,798,690,187
Common Equity Tier I capital	37,758,991,371	30,455,613,932
Total Tier I capital	37,758,991,371	30,455,613,932
Total Tier II capital	3,399,243,410	2,846,722,958
Total regulatory capital	41,158,234,781	33,302,336,890
Surplus	9,256,564,355	18,503,646,703
% of Capital adequacy required		
Common Equity Tier I	7.000%	6.375%
Tier I	6.000%	6.000%
Total	12.500%	11.875%
% of Capital adequacy maintained		
Common Equity Tier I	14.80%	24.44%
Tier I	14.80%	24.44%
Total	16.13%	26.72%

5 Credit Risk

Qualitative disclosures:

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

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

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

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

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

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

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

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

HSBC has historically sought to maintain a conservative, yet constructive and competitive credit risk culture. This has served the Group well, through successive economic cycles and remains valid today. This culture is determined and underpinned by the disciplined credit risk control environment which the Group has put in place to govern and manage credit risk, and which is embodied in the formal policies and procedures adopted by HSBC Bangladesh. These are articulated through Group credit policies supplemented by regional and local area lending guidelines, backed up by the Bangladesh Bank’s “Managing Core Risks in Banking - Credit Risk Management - Industry Best Practices” and “Guidelines on Credit Risk Management (CRM) for Banks”. Formal policies and procedures cover all areas of credit lending and monitoring processes including:

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

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

The Bank also has established a separate Risk department which looks after the loan review mechanism and also helps in ensuring credit compliance with the post-sanction processes/ procedures laid down by the Bank from time to time. This involves taking up independent account-specific reviews of individual credit exposures as per the approved lending guideline. The Risk department also monitors various credit concentration limits. The Bank has in place a risk grading system for analysing the risk associated with credit. The parameters for risk grading customers include financial condition and performance, quality of disclosures and management, facility structure, collateral and country risk assessment where necessary. Maximum funded counterparty/group exposures are limited to 15% of the Bank’s capital base as stipulated by Bangladesh Bank. Where a higher limit is required for projects of national importance, prior approval of Bangladesh Bank is obtained.

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

Credit risk mitigation

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

Specific provision

The Bank follows Bangladesh Bank guidelines regarding loan classifications, provisioning and any other issues related to Non Performing Loan (NPL). The Bank’s internal credit guidelines also give direction on the management of NPLs, the procedure for reviewing loan provisioning, debt write off, facility grading, reporting requirements and interest recognition. However, the Bank’s guidelines will not supersede local regulations. Thus, while dealing with NPLs, the Bank’s decision is always compliant with local rules and regulations as well as Group guidelines which are more conservative than local regulations.

Throughout the year the Bank reviews loans and advances to assess whether objective evidence has arisen of impairment of a loan or portfolio that warrants a change in the classification of loans and advances which may result in a change in the provision required in accordance with with BRPD circular No. 24 (17 November 2019), BRPD circular No.6 (19 May 2019), BRPD circular No.4 (16 May 2019), BRPD circular No. 3 (21 April 2019), 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) 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:	2019	2018
Gross Credit Risk Exposure	BDT	BDT
Claims on sovereigns and central banks	30,083,846,873	45,752,716,160
Claims on banks	19,595,350,374	4,804,460,292
Investments	16,278,988,469	7,915,203,878
Claims on corporate	216,045,288,281	76,309,843,731
Claims on consumer	4,578,642,563	5,598,280,667
Fixed assets	266,899,913	292,843,265
All other assets	4,624,835,382	5,897,354,667
Total on-balance sheet items	291,473,851,855	146,570,702,660
Off-balance sheet items (after considering the credit conversion factor)	32,493,460,821	67,874,238,716
Total	323,967,312,676	214,444,941,376

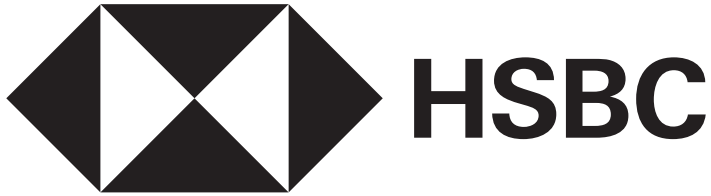
Geographical distribution of credit exposures

2019	Dhaka	Chattogram	Total
			BDT
Claims on sovereigns and central banks	29,427,028,989	656,817,884	30,083,846,873
Claims on banks	19,595,350,374	-	19,595,350,374
Investments	16,278,095,469	893,000	16,278,988,469
Claims on corporate	205,948,452,926	10,096,835,354	216,045,288,281
Claims on consumer	3,787,031,909	791,610,654	4,578,642,563
Fixed assets	213,899,632	53,000,281	266,899,913
All other assets	4,591,510,393	33,324,989	4,624,835,382
Total on-balance sheet items	279,841,369,692	11,632,482,162	291,473,851,855
Off-balance sheet items	30,523,498,460	1,969,962,361	32,493,460,821
Total	310,364,868,152	13,602,444,524	323,967,312,676
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	65,989,684,816	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	292,843,265
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

Industry distribution of exposures

2019	Banks and FIs	Manufacturing	Industry	Retail	Others	Total
						BDT
Claims on sovereigns						
and central banks	30,083,846,873	-	-	-	-	30,083,846,873
Claims on banks	19,595,350,374	-	-	-	-	19,595,350,374
Investments	-	-	-	-	-	16,278,988,469
Claims on corporate	10,886,951,878	87,133,167,093	102,080,639,370	-	-	216,045,288,281
Claims on consumer	-	-	-	3,377,133,861	1,201,508,702	4,578,642,563
Fixed assets	-	-	-	-	266,899,913	266,899,913
All other assets	-	-	-	-	4,624,835,382	4,624,835,382
Total on-balance sheet items	60,566,149,125	87,133,167,093	102,080,639,370	3,377,133,861	38,316,762,406	291,473,851,855
Off-balance sheet items	2,603,188,367	-	-	-	29,890,272,453	32,493,460,821
Total	63,169,337,492	87,133,167,093	102,080,639,370	3,377,133,861	68,207,034,860	323,967,312,676

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
Claims on corporate	37,578,118,257	25,641,660,899	-	-	-	63,219,779,156
Claims on consumer	-	-	-	4,449,619,007	1,148,661,660	5,598,280,667
Fixed assets	-	-	-	-	292,843,265	292,843,265
All other assets	-	-	-	-	5,897,354,667	5,897,354,667
Total on-balance sheet items	50,557,176,452	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	72,852,303,146	37,578,118,257	25,641,660,899	4,449,619,007	73,923,240,068	214,444,941,376



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Bangladesh Branches

Maturity breakdown of credit exposures

2019	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	18,603,762,023	-	-	-	11,480,084,850	30,083,846,873
Claims on banks	9,697,459,894	3,784,061,435	6,113,829,044	-	19,595,350,374	29,606,640,267
Investments	4,493,731,577	3,904,426,847	7,880,830,044	-	16,278,988,469	26,557,976,938
Claims on corporate	37,423,466,967	69,413,130,171	72,450,758,164	32,580,341,820	4,177,592,159	216,045,288,281
Claims on consumer	120,593,719	102,605,360	305,935,194	4,049,508,290	-	4,578,642,563
Fixed assets	274,379	561,045	8,581,534	174,463,590	83,019,365	266,899,913
All other assets	1,107,611,785	1,667,405,387	249,319,438	739,262,737	861,236,035	4,624,835,382
Total on-balance sheet items	71,446,899,344	78,872,190,245	87,009,253,418	33,494,068,148	20,651,440,700	291,473,851,865
Off-balance sheet items	6,304,451,298	8,453,120,915	15,859,589,441	1,876,299,167	-	32,493,460,821
Total	77,751,350,642	87,325,311,160	102,868,842,859	35,370,367,315	20,651,440,700	323,967,312,676
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	609,210,994	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	292,843,265
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	23,848,204,598	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	38,491,172,761	66,491,210,272	28,252,980,382	8,909,738,612	214,444,941,376

Gross Non Performing Assets (NPAs)	2019 BDT	2018 BDT
Non Performing Assets (NPAs) to outstanding loans and advances	1,398,717,377	1,475,858,628

Movement of NPAs

Opening Balance	1,475,858,628	1,573,244,596
Written off during the period	(66,485,900)	(229,811,807)
Recoveries during the period	(71,357,027)	(81,515,249)
Addition during the period	60,701,676	213,941,087
Closing Balance	1,398,717,377	1,475,858,628

Movement of specific provision for NPAs

Opening Balance	720,084,005	674,300,505
Written off (net off recovery) during the period	(34,605,259)	(60,155,650)
Recoveries during the period	(32,703,308)	(61,797,309)
Provision made during the period	111,513,683	167,736,459
Closing Balance	764,289,121	720,084,005

6 Equities: Disclosures for banking book positions

The bank does not hold trading position in equities.

7 Interest rate risk in the banking books

Discussed in the next section under Market risk.

8 Market risk

Qualitative disclosures:

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

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

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

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

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

Interest rate exposures

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

Interest rate exposures in the banking book

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

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:	2019 BDT	2018 BDT
Interest rate risk	47,092,514	35,230,937
Equity position risk	-	-
Foreign exchange risk	367,022,181	180,151,531
Commodity risk	-	-
	414,114,695	215,382,468

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:	2019 BDT	2018 BDT
Capital charge for operational risk	2,044,783,647	1,577,528,169

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 framework requires:

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

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

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

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

Quantitative disclosures:	2019 BDT	2018 BDT
Liquidity coverage ratio (%)	144.27%	119.92%
Net Stable Funding Ratio (%)	146.20%	109.15%
Stock of High quality liquid assets	42,463,115,077	63,630,750,251
Total net cash outflows over the next 30 calendar days	29,432,300,305	53,062,849,333
Available amount of stable funding	263,893,488,840	133,411,158,384
Required amount of stable funding	180,498,518,329	122,228,170,674

11 Leverage Ratio

Qualitative disclosures:

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

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

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

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

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

Quantitative disclosures:	2019 BDT	2018 BDT
Leverage ratio	10.58%	12.05%
On balance sheet exposure	310,401,491,894	166,933,210,109
Off balance sheet exposure	47,314,292,815	85,994,228,492
Total exposure	357,715,784,709	252,927,438,601

12 Remuneration

Qualitative disclosures:

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

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

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

Fixed Pay:

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

Benefits:

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

Annual Incentive:

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

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

Key features of HSBC’s remuneration framework include:

- assessment of performance with reference to clear and relevant objectives set within a performance scorecard framework;
 - a focus on total compensation (fixed plus variable pay) with variable pay (namely annual incentive and the value of long term incentives) differentiated by performance and adherence to HSBC values;
 - the use of discretion to assess the extent to which performance has been achieved; and
 - deferral of a significant proportion of variable pay into HSBC shares to tie recipients to the future performance of the Group and align the relationship between risk and reward.
- Within this framework, risk alignment of our remuneration structure is achieved through the following measures:
- Risk and compliance is a critical part of the assessment process in determining the performance of all employees, especially senior executives and identified staff and material risk takers. All employees are required to have risk measures in their performance scorecards, which ensure that their individual remuneration has been appropriately assessed with regard to risk.
 - Adherence to HSBC values is a pre-requisite for any employee to be considered for variable pay. HSBC values are key to the running of a sound, sustainable bank. Employees have a separate HSBC values rating which directly influences their overall performance rating considered by the Committee for their variable pay determinations.
 - For our most senior employees, the greater part of their reward is deferred and thereby subject to clawback, which allows the awards to be reduced or cancelled if warranted.
 - The Group also carries out regular reviews to assess instances of non-compliance with risk procedures and expected behaviour. Instances of non-compliance are escalated for consideration in variable pay decisions, including adjustments and clawback of unvested awards granted in prior years. For identified staff and Material Risk Takers (MRTs), the Committee has oversight of such decisions.
 - All variable pay awards made to identified staff and material risk takers for the performance year in which they have been identified as MRTs are also subject to the Group Claw back Policy in accordance with the requirements in the Prudential Regulation Authority’s Remuneration Code.

Quantitative disclosures:	2019 BDT	2018 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	779	763
Guaranteed bonuses awarded during the financial year:		
Number of employee	854	860
Total amount of guaranteed bonuses	91,059,588	80,668,542
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	6	7
Total amount of severance payments	44,043,899	35,867,138
Total amount of outstanding deferred remuneration (in cash)	19,390,082	6,640,832
Total amount of deferred remuneration paid out in the financial year	10,025,249	5,913,855
Breakdown of amount of remuneration awards for the financial year:		
Fixed and variable	2,761,393,813	2,081,067,335
Variable pay		
Deferred	10,025,249	7,414,662
Non-deferred	365,104,702	373,521,837
	375,129,951	380,936,499