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HSBC

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

Bangladesh Branches

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

Report on the audit of the financial statements

Opinion

We have audited the financial statements of The Hongkong and Shanghai Banking Corporation Limited (HSBC), Bangladesh Branches (the "Bank") which comprise the balance sheet as at 31 December 2022 and the profit and loss account, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as explained in note 3.

Basis for opinion

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

Other Matters

The financial statements of the Bank for the year ended 31 December 2021, were audited by another auditor who expressed an unmodified opinion on those statements on 24 February 2022.

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

Management is responsible for the preparation of the financial statements that give a true and fair view 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 judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

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

- (i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit and made due verification thereof;
- (ii) to the extent noted during the course of our audit work performed on the basis stated under the Auditor's Responsibilities section in forming the above opinion on the financial statements and considering the reports of the Management to Bangladesh Bank on anti-fraud internal controls and instances of fraud and forgeries as stated under the Management's Responsibilities for the financial statements and internal control:
 - internal audit, internal control and risk management arrangements of the Bank as disclosed in the financial statements appeared to be materially adequate; and
 - 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 financial statements have been drawn up in conformity with prevailing rules, regulations and accounting standards as well as related guidance issued by Bangladesh Bank;
- (vii) adequate provisions have been made for loans and advances and other assets which are in our opinion, doubtful of recovery;
- (viii) the information and explanations required by us have been received and found satisfactory;
- (ix) we have reviewed over 80% of the risk weighted assets of the Bank and spent over 2,700-person-hours; and
- (x) Capital to Risk-weighted Asset Ratio (CRAR) as required by Bangladesh Bank has been maintained adequately during the year.

DVC NO: 2304110770AS741158
Dhaka, 12 April 2023

Sabbir Ahmed

Sabbir Ahmed FCA, Partner
ICAB Enrolment No: 770
Hoda Vasi Chowdhury & Co
Chartered Accountants

Balance Sheet as at 31 December 2022

PROPERTY AND ASSETS

Cash

In hand (including foreign currencies)
With Bangladesh Bank and its agent bank(s)
(including foreign currencies)

Balance with other banks and financial institutions

In Bangladesh
Outside Bangladesh

Notes

5

2022
BDT

2021
BDT

1,105,262,177
28,488,632,822
29,593,894,999

203,963,793
20,754,064,539
20,958,028,332

1,014,282,551

25,182,489,035
26,196,771,586

148,079,362
5,263,547,210
5,411,626,572

	Notes	2022 BDT	2021 BDT
Money at call on short notice	7	12,905,862,500	14,508,089,000
Investments	8		
Government securities		86,832,990,131	65,982,796,977
Others		6,000,000	6,000,000
		86,838,990,131	65,988,796,977
Loans and advances	9		
Loans, cash credits, overdrafts etc.		160,924,033,389	136,823,889,599
Bills purchased and discounted		64,685,935,814	103,053,756,949
		225,609,969,203	239,877,646,548
Fixed assets including premises, furniture and fixtures	10	774,813,314	692,225,966
Other assets	11	9,041,511,447	3,802,965,562
Non - banking assets		-	-
Total assets		385,723,069,926	356,478,122,211
LIABILITIES AND CAPITAL			
Liabilities			
Borrowings from other banks, financial institutions and agents	12	110,486,028,912	144,768,648,476
Deposits and other accounts	13		
Current accounts and other accounts		105,492,592,749	67,868,729,459
Bills payable		7,305,567,008	4,251,956,054
Saving deposits		35,528,575,622	27,242,668,042
Term deposits		58,941,620,216	56,919,473,671
		207,268,355,675	156,282,827,226
Other liabilities	14	18,959,840,769	12,596,678,342
Total liabilities		336,714,225,356	313,648,154,044
Capital/shareholders' equity			
Fund deposited with Bangladesh Bank	15	3,811,264,265	3,167,775,997
Other reserves	16	1,838,005,354	(539,409,005)
Profit and loss account	17	43,359,574,951	40,201,601,175
Total shareholders' equity		49,008,844,570	42,829,968,167
Total liabilities and shareholders' equity		385,723,069,926	356,478,122,211
OFF BALANCE SHEET ITEMS			
Contingent liabilities			
Acceptances and endorsements	18	72,944,540,567	33,715,554,489
Letters of guarantee		108,464,001,050	87,772,846,201
Irrevocable letters of credit		79,695,227,199	86,781,076,601
Foreign exchange contracts - Spot and Forward		1,556,391,160	2,673,364,702
Total		262,660,159,976	210,942,841,993
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		262,660,159,976	210,942,841,993

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

Md Mahub ur Rahman

Md Mahub ur Rahman
Chief Executive Officer, Bangladesh

Jignesh Chetan Ruparel

Jignesh Chetan Ruparel
Chief Financial Officer, Bangladesh

As per our report of same date.

Sabbir Ahmed

DVC NO: 2304110770AS741158
Dhaka, 12 April 2023

Sabbir Ahmed FCA, Partner
ICAB Enrolment No: 770
Hoda Vasi Chowdhury & Co
Chartered Accountants



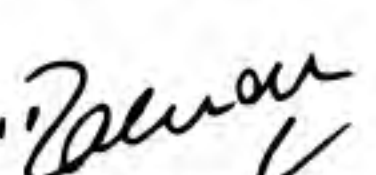
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

Bangladesh Branches

Profit and Loss Account for the year ended 31 December 2022

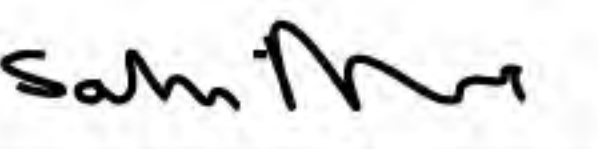
	Notes	2022 BDT	2021 BDT
Interest income	19	11,870,729,209	9,844,218,517
Interest paid on deposits and borrowings	20	(3,133,726,344)	(2,174,816,886)
Net interest income		8,737,002,865	7,669,401,631
Income from investments	21	2,125,654,186	2,000,908,677
Commission, exchange and brokerage	22	8,111,319,636	4,618,827,786
Other operating income	23	(67,167,068)	3,037,782
Total operating income		18,906,809,619	14,292,175,876
Salaries and allowances	24	3,207,360,624	2,966,093,910
Rent, taxes, insurance, electricity etc.		340,763,273	295,443,311
Legal and professional expenses	25	31,705,735	40,301,927
Postage, stamp, telecommunication etc.		53,265,899	74,607,159
Auditors' fee		1,150,000	1,150,000
Stationery, printings and advertisements etc.		151,102,214	136,286,383
Chief Executive Officer's salary and allowances		41,201,939	43,333,037
Depreciation, impairment and repair of Bank's assets	26	848,786,729	705,117,678
Other operating expenses	27	1,836,536,362	1,200,796,872
Total operating expenses		6,511,872,775	5,463,130,277
Profit before provision		12,394,936,844	8,829,045,599
Specific provision for classified loans and advances	14.2	1,607,598,472	2,132,156,550
General provision for unclassified loans and advances			
and off balance sheet exposures	14.2	243,782,075	364,751,087
Other provision		11,565,488	-
Total provision		1,862,946,035	2,496,907,637
Profit before tax		10,531,990,809	6,332,137,962
Tax			
Current year	14.4	5,392,673,651	3,513,209,574
Prior year		(3,018,036)	(123,999,049)
Deferred tax	11.4	(736,921,669)	(840,751,862)
		4,652,733,946	2,548,458,663
Profit after tax for the year	17	5,879,256,863	3,783,679,299

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


Md Mahub ur Rahman
Chief Executive Officer, Bangladesh


Jignesh Chetan Ruparel
Chief Financial Officer, Bangladesh

As per our report of same date.


Sabbir Ahmed FCA, Partner
ICAB Enrolment No: 770
Hoda Vasi Chowdhury & Co
Chartered Accountants

DVC NO: 2304110770AS741158
Dhaka, 12 April 2023

Cash Flow Statement for the year ended 31 December 2022

	Notes	2022 BDT	2021 BDT
A Cash flow from operating activities			
Interest received		11,854,586,378	9,642,011,215
Interest paid		(2,730,522,726)	(2,285,258,789)
Dividends receipts		7,500,000	7,500,000
Commission, exchange and brokerage received		8,121,923,398	4,726,474,526
Other income		(63,301,821)	8,779,248
Cash paid to employees		(3,141,644,863)	(3,164,026,210)
Cash paid to suppliers		(775,513,939)	(658,198,296)
Cash paid for other operating expenses		(1,820,615,862)	(1,199,047,552)
Operating profit before changes in operating assets and liabilities		11,452,410,565	7,078,234,142
<i>(Increase)/decrease of operating assets:</i>			
Loans and advances to customers		14,267,677,345	(2,701,882,234)
Other assets		(5,841,435,208)	(654,004,214)
<i>Increase/(decrease) of operating liabilities:</i>			
Customers deposits		50,985,528,449	7,110,539,530
Borrowing from other banks and financial institutions		(34,282,619,564)	17,223,384,925
Other liabilities		5,043,624,791	460,762,628
		30,172,775,813	21,438,800,635
Cash receipt from operating activities		41,625,186,378	28,517,034,777
Advance income tax paid	14.4	(3,553,566,746)	(3,572,126,460)
Net cash receipt from operating activities		38,071,619,632	24,944,908,317
B Cash flow from investing activities			
Income from investments		2,501,064,004	1,564,470,426
Investments made during the year		(37,074,956,460)	(53,907,196,653)
Proceeds from sale of investments		61,996,544,467	42,011,041,919
Purchase of property, plant and equipment	10	(304,112,831)	(553,871,389)
Proceeds from sale of property, plant and equipment		1,155,999	6,866,193
Net cash used in investing activities		27,119,695,179	(10,878,689,504)
C Cash flow from financing activities			
Cash remitted to head office	17	(2,721,723,245)	(2,398,115,033)
Net cash used in financing activities		(2,721,723,245)	(2,398,115,033)
D Net increase in cash and cash equivalents (A+B+C)		62,469,591,566	11,668,103,780
E Gain/(Loss) on revaluation of foreign currency deposited with Bangladesh Bank as capital and cash and cash equivalents	15	643,488,268	32,028,503
F Net increase in cash and cash equivalents (D+E)		63,113,079,834	11,700,132,283
G Opening cash and cash equivalents		57,826,540,417	46,126,408,134
H Closing cash and cash equivalents (F+G)	29	120,939,620,251	57,826,540,417

Statement of Changes in Equity for the year ended 31 December 2022

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 2021	3,135,747,494	(32,978,438)	38,929,347,049	42,032,116,105
Revaluation of Foreign Currency	32,028,503	57,493,393	(21,419,912)	68,101,984
Net profit for the year	-	-	3,783,679,299	3,783,679,299
Unrealised interest on amortisation of HTM Securities (net of deferred tax assets/liabilities)	-	(464,803,270)	-	(464,803,270)
Unrealised interest on revaluation of HFT Securities (net of deferred tax assets/liabilities)	-	(1,936,001)	-	(1,936,001)
Actuarial gain/(loss) (net of deferred tax assets/liabilities)	-	(97,184,689)	-	(97,184,689)
Provision for Start-up Fund 2021	-	-	(37,836,793)	(37,836,793)
Provision for Start-up Fund 2020	-	-	(54,053,435)	(54,053,435)
Profit remitted to head office	-	-	(2,398,115,033)	(2,398,115,033)
Balance at 31 December 2021	3,167,775,997	(539,409,005)	40,201,601,175	42,829,968,167
Revaluation of Foreign Currency	643,488,268	1,896,541,910	-	2,540,030,178
Net profit for the year	-	-	5,879,256,863	5,879,256,863
Unrealised interest on amortisation of HTM Securities (net of deferred tax assets/liabilities)	-	395,901,049	-	395,901,049
Unrealised interest on revaluation of HFT Securities (net of deferred tax assets/liabilities)	-	-	-	-
Actuarial gain/(loss) (net of deferred tax assets/liabilities)	-	84,971,400	-	84,971,400
Provision for Start-up Fund 2022	-	-	(58,792,569)	(58,792,569)
Prior Period Adjustment	-	-	59,232,727	59,232,727
Profit remitted to head office	-	-	(2,721,723,245)	(2,721,723,245)
Balance at 31 December 2022	3,811,264,265	1,838,005,354	43,359,574,951	49,008,844,570

Notes to the Financial Statements as at and for the year ended 31 December 2022

1 Background

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

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

2 Principal activities

HSBC offers a comprehensive range of financial services in Bangladesh including wholesale banking, wealth & personal banking, markets & securities services, global trade and receivable finance, and global payments solutions.

2.1 Wholesale banking (WSB): Wholesale Banking provides a wide range of financial services and products with international connectivity features to meet the need of both corporate and commercial customers. Services provided, but not limited to, include working capital, term loans, payment services and international trade facilitation, as well as expertise in mergers and acquisitions, and access to financial markets. This allows the Bank to provide continuous support to companies as they grow both domestically and internationally and ensures a clear focus on internationally aspirant customers. The Bank has an OBU license and therefore also provides foreign currency financing to qualifying customers.

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

2.2 Wealth and Personal Banking (WPB): HSBC offers a wide range of personal banking solutions to Retail customers. The offerings range from a curated "Select" proposition for high-net-worth customers, to payroll solutions for salaried individuals, to a differentiated product suite for Non-Resident Bangladeshis (NRBs) leveraging HSBC's global footprint. HSBC Bangladesh operates through 6 branches and 22 ATMs across Dhaka, Chattogram and Export Processing Zones (EPZ).

Banking solutions offered to Retail customers include deposits (current/savings accounts, savings schemes, term deposits) and personal loans (secured and unsecured loans). With a strong focus on "international connectivity and banking convenience", HSBC offers Foreign Currency Accounts, local and international Debit cards, Personal internet banking, Remittance solutions and Student File facilities – including international account opening at HSBC locations for students going abroad.

In relation to its Retail offerings, HSBC was recognized as the "Best Bank for International Services Bangladesh 2022" by Global Banking & Finance Review; and won the "International Retail Bank of the Year– Bangladesh" title and "Branch Innovation of the Year – Silver award" from Asian Banking & Finance in 2022. The Gulshan branch also received the 'Platinum certification' under the LEED v4 rating system – the highest-level recognition for overall sustainability. The branch was the first bank branch in Bangladesh to earn the coveted rating.

2.3 Markets and Securities Services (MSS): MSS transacts foreign exchange with corporate clients as well as institutional clients of the Bank. The bank also transacts money market products in the interbank market with the bank counterparties. The bank invests and transacts in fixed income securities, mainly for the maintenance of statutory liquidity ratios then for deployment of any commercial surplus. Global Markets operates a long-term relationship approach to provide solutions relating to the clients foreign exchange needs. Our global network is combined with emerging markets leadership and specialist expertise, giving clients the confidence to go where the growth is and capture new opportunities. HSBC delivers a comprehensive range of custody and clearing services to institutional clients, underpinned by best practices, state-of-the-art technology, operational efficiency and world-class services. Securities Services uses an automated system, which is globally connected and provides round-the-clock real-time access to clients' investment portfolios.

2.4 Global Trade and Receivables Finance (GTRF): HSBC is the largest international trade bank with more than 150 years of experience. GTRF has an unrivalled global presence and access to over 90 percent of the world's global capital flows. GTRF provides trade finance and risk mitigation solutions to customers all over the world.

HSBC's dedicated coverage, customer centricity, unparalleled network and experiences puts it in the best position to bring innovative products and solutions for clients and the community in Bangladesh through a mix of traditional and structured solutions. In addition to traditional trade, HSBC has the expertise to structure complex trade transactions across commodities, Supply Chain Finance (SCF), Receivables Finance (RF) and other working capital solutions.

The innovation is not only at product and solutions but also in the delivery channels where recently HSBC has made most ground breaking moves to be in line with the ever changing trade ecosystem. Digitization capabilities have reached new heights using cutting edge technologies like Blockchain, e-presentation, platform for invoice finance etc. in anticipation of how the future is envisioned with goal to make International Trade faster, safer and simpler.

HSBC Bangladesh operates in the major commercial hubs of Dhaka and Chattogram and has a 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 Payments Solutions: Global Payments Solutions (GPS) offers products to help clients 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. GPS help clients to achieve these goals by enabling them to make faster, smarter business decisions.

GPS is a part of HSBC's Wholesale banking 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 the bank's clients need. GPS is uniquely positioned to help clients make payments within and across borders and in currencies allowed by local regulations, quickly and cost effectively with dedicated in-country and regional support.

3 Basis of preparation

3.1 Statement of compliance

The Financial Reporting Act 2015 (FRA) was enacted in 2015. Under the FRA, the Financial Reporting Council (FRC) is formed and has from time to time issued guidance to follow related accounting standards in preparing financial statements. However, financial statements of the Bank continue to be prepared in accordance with, International Financial Reporting Standards (IFRS) as well as, requirements of the Bank Company Act 1991, rules and regulations issued by Bangladesh Bank (BB), and the Companies Act 1994. In case any requirement of the Bank Company Act 1991, and provisions and circulars issued by Bangladesh Bank differ with those of IFRS, the requirements of the Bank Company Act 1991, and provisions and circulars issued by Bangladesh Bank has been applied.

According to BRPD circular no. 2 dated 25 February 2019, financial statements of the Bank are prepared on a solo basis where OBU information is included in equivalent BDT denomination. However, key financial information of OBU is provided as an annexure to the solo financial statements of the Bank.

Material deviations from the requirements of IFRS in preparing the financial statements of HSBC are as follows:

i) Investment in shares and securities

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

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

ii) Revaluation gains/losses on Government securities

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

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

iii) Repo and reverse repo transactions

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

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

iv) Provision on loans and advances/investments

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

Bangladesh Bank: As per BRPD Circular Letter No.03 dated 31 January 2021, BRPD Circular Letter No.05 dated 24 March 2021, BRPD Circular Letter No.13 dated 26 June 2021, BRPD Circular Letter No.19 dated 26 August 2021, BRPD Circular Letter No.45 dated 04 October 2021, BRPD Circular Letter No.50 dated 14 December 2021, BRPD Circular Letter No. 52 dated 29 December 2021, BRPD (P-1)/661/13/2021-12262 dated 29 December 2021, BRPD Circular Letter No. 53 dated 30 December 2021, BRPD Circular Letter No. 53 dated 22 December 2022, BRPD circular No. 56 (10 December 2020), BRPD circular No. 52 (20 October 2020), BRPD circular No. 19 (28 September 2020), BRPD Circular No. 16 (21 July 2020), BRPD circular No. 13 (15 June 2020), BRPD circular No. 04 (19 March 2020), BRPD circular No. 07 (19 March 2020), BRPD circular No. 24 (17 November 2019), BRPD circular No. 06 (19 May 2019), BRPD circular No. 04 (16 May 2019), BRPD circular No. 03 (21 April 2019), BRPD circular No. 01 (20 February 2018), BRPD circular No.15 (27 September 2017), BRPD circular No.16 (18 November 2014), BRPD circular No.14 (23 September 2012), BRPD circular No. 19 (27 December 2012) and BRPD circular No. 05 (29 May 2013) a general provision at 0.25% to 2% under different categories of unclassified loans (good/standard loans) as well as a special general provision for COVID-19 has to be maintained regardless of objective evidence of impairment. Also specific provision for sub-standard loans, doubtful loans and bad losses has to be provided at 5%, 20%, 50% and 100% respectively for loans and advances depending on time past due. Again as per BRPD circular no. 10 dated 18 September 2007 and BRPD circular no. 14 dated 23 September 2012, a general provision at 1% is required to be provided for all off-balance sheet exposures. Such provision policies are not specifically in line with those prescribed by IFRS 9.

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 an instrument. Financial guarantee liabilities are recognised initially at their fair value plus transaction costs that are directly attributable to the issue of the financial liabilities. The financial guarantee liability is subsequently measured at the higher of the amount of loss allowance for expected credit losses as per impairment requirement and the amount initially recognised less, income recognised in accordance with the principles of IFRS 15. Financial guarantees are included within other liabilities.

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

ix) Cash and cash equivalents

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

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

x) Non-banking assets

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

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

xi) Cash flow statement

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

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

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

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

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

xiii) Presentation of intangible assets

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

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

xiv) Off-balance sheet items

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

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

xv) Loans and advances/Investments net of provision

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

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

xvi) Name of Financial Statements

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

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

3.2 Basis of measurement

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

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

3.3 Functional and presentation currency

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

3.4 Use of estimates and judgments

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

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

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

- Provisions on loans and advances - as explained in note 4.3
- 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
- Useful life of depreciable assets.

3.5 Reporting period

These financial statements cover one calendar year from 01 January 2022 to 31 December 2022. These financial statements are authorised for issue by management of the Bank on 12 April 2023

3.6 Cash flow statement

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

3.7 Statement of changes in equity

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

3.8 Liquidity statements

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

4 Significant accounting policies

4.1 Foreign currencies

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

4.2 Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable

payments that are not quoted in an active market and that the Bank does not sell in the normal course of business.

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

4.3 Provisions on loans and advances

At each balance sheet date and periodically throughout the year, the Bank reviews loans and advances to assess whether objective evidence that impairment of a loan or portfolio of loans has arisen supporting a change in the classification of loans and advances, which may result in a change in the provision required in accordance with BRPD Circular Letter No.03 dated 31 January 2021, BRPD Circular Letter No.05 dated 24 March 2021, BRPD Circular Letter No.13 dated 26 June 2021, BRPD Circular Letter No.19 dated 26 August 2021, BRPD Circular Letter No.45 dated 04 October 2021, BRPD Circular Letter No.50 dated 14 December 2021, BRPD Circular Letter No. 53 dated 22 December 2022, BRPD Circular Letter No. 52 dated 29 December 2021, BRPD (P-1)/661/13/2021-12262 dated 29 December 2021, BRPD Circular Letter No. 53 dated 30 December 2021, BRPD circular No. 56 (10 December 2020), BRPD circular No. 52 (20 October 2020), BRPD circular No. 17 (28 September 2020), BRPD Circular No. 16 (21 July 2020), BRPD circular No. 13 (15 June 2020), BRPD circular No. 04 (19 March 2020), BRPD circular No. 07 (19 March 2020), BRPD circular No. 24 (17 November 2019), BRPD circular No. 06 (19 May 2019), BRPD circular No. 04 (16 May 2019), BRPD circular No. 03 (21 April 2019), BRPD circular No. 01 (20 February 2018), BRPD circular No.15 (27 September 2017), BRPD circular No.16 (18 November 2014), BRPD circular No.14 (23 September 2012), BRPD circular No. 19 (27 December 2012) and BRPD circular No. 05 (29 May 2013). The guidance in the circular follows a formulaic approach whereby specified rates are applied to the various categories of loans as defined in the circular. The provisioning rates are as follows:

General provision on:	2022	2021
Unclassified general loans and advances/investments	1.00%	1.00%
Unclassified small and medium enterprise financing	0.25%	0.25%
Unclassified loans/investment for housing finance and on loans for professionals	1.00%	1.00%
Unclassified consumer financing other than housing finance and loans for professionals	2.00%	2.00%
Unclassified agricultural loans	1.00%	1.00%
Special general provision- COVID-19:		
Unclassified CMSME loans & Advances/investment	1.00%	1.50%
Unclassified general loans and advances/investment	2.00%	2.00%
Special Mention Account (SMA) loans and advances/investment	2.00%	2.00%

Specific provision on:

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

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

4.4 Loan write-off

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

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

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

Provisions for unsettled transactions on nostro accounts made are reviewed on a monthly basis by management in Risk management meeting (RMM) and certified by the Bank's external auditors on a semi-annual basis in accordance with BRPD circular No. 04 dated 12 April 2022.

4.6 Provisions for off balance sheet exposures

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

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

4.7 Investments

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

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

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

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

4.8 Provisions for other assets

The Bank maintains the required provision in line with the BRPD circular no 04 dated 12 April 2022 unless no provision is required based on an objective assessment.

4.9 Fixed assets (Property, plant and equipment)

Fixed assets 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 derecognised 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 IFRS 16 amendments, 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, 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 IFRS 16, from lessee's perspective, the distinction between operating and finance leases is removed and almost all leases are being recognised on the balance sheet. 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 changes in the standard on lessees' financial statements is:

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

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

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

Year	Particulars	Opening Balance	Addition	De-recognition	Depreciation/ interest expenses during the year	Lease payment	Written down value/Closing balance
2021	ROU Assets	1,547,186,783	528,296,685	981,463,967	-	-	916,335,659
	Accumulated Depreciation	539,245,381	39,850,825	654,244,698	252,832,335	-	-
	Lease Liabilities	736,486,391	542,539,177	330,217,428	76,938,110	237,657,130	788,089,119
2022	ROU Assets	1,094,019,502	920,554,848	765,258,278	-	-	1,163,542,777
	Accumulated Depreciation	177,683,843	-	287,680,998	195,770,451	-	-
	Lease Liabilities	788,089,119	920,601,928	403,142,120	70,494,556	175,570,077	1,200,473,405

In addition to the above, short term lease expenses of BDT15,505,860 (BDT16,896,768 in 2021) is reported under Other operating expenses in profit and loss account.

4.12 Deposits by customers and banks

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

4.13 Provisions for liabilities and charges

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

4.14 Capital adequacy

According to Sub-section 2 of Section 13 of the Bank Company Act 1991, as amended by BRPD circular No.11 (14 August 2008) and BRPD circular No. 18 (21 December 2014) all banks are required to maintain with Bangladesh Bank the higher of BDT 4 billion or the minimum capital requirement calculated as 10% of risk weighted assets (RWA). In addition to minimum capital requirement, Capital Conservation Buffer (CCB) at the rate of 2.50% of the total RWA is to be maintained in the form of Common Equity Tier-1 Capital (CET-1). The banks incorporated outside Bangladesh are required to deposit the required capital in the form of cash or in unencumbered approved securities. Note 28 demonstrates the Bank's compliance with the overall capital requirements as disclosed above. The risk based capital adequacy framework in line with Basel III has come into force from 01 January 2015 as per BRPD circular No. 18 (21 December 2014).

4.15 Off setting financial assets and financial liabilities

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

4.16 Cash and cash equivalents

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

4.17 Revenue recognition

Interest income and expense

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

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

Interest income from investment

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

Interest expense on deposits

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

Commission and fee income

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

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

Exchange income

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

Dividend income

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

4.18 Employee benefits

Short-term employee benefits

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



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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.

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, including allocations across onshore/offshore unit.

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

Deferred tax

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

4.21 Reconciliation of inter-bank/inter-branch accounts

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

4.22 Contingent liabilities

As per IAS 37, contingent liability is:

- A possible obligation that arises from past events and the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank; or
- A present obligation that arises from past events but is not recognised because:
- it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
 - the amount of the obligation cannot be measured with sufficient reliability.
- Contingent liabilities are not recognised but disclosed in the financial statements unless the possibility of an outflow of resources embodying economic benefits is reliably estimated.

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

4.23 Standard issued but not yet effective

The following new standards and amendments to standards are effective for annual periods beginning after 1 January 2022 and earlier application is permitted, but the Bank has not adopted these earlier. However, none of these new and amended standards are expected to have a significant impact on the Bank's financial statements.

- IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts.
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2).
- Definition of Accounting Estimates (Amendments to IAS 8).
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)
- Lease liability in a Sale and Leaseback (Amendments to IFRS 16).
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1).

4.24 Creation of own 'Start-up Fund' by transferring 1% of the annual net profit

Pursuant to the SMESPD Circular no 4 dated 29 March 2021, Section 'Kha', all scheduled banks in Bangladesh are instructed to create own 'start-up fund' for disbursement of loan / Investment (for Islamic banks) to 'start-up entrepreneurs'. As per the subsequent amendment through SMESPD Circular no 5 dated 26 April 2021, for five years from 2020 banks shall maintain start-up fund to disburse in favour of 'Start-up entrepreneurs' through mandatory transfer of 1% of net profit after tax as per the audited financial statements. A new account with a heading 'start-up fund' shall be created and disclosed in the balance sheet under 'other liabilities'.

4.25 Comparative information

Comparative information including narrative and descriptive one is disclosed in respect of the preceding period where it is relevant to enhance the understanding of the current period's financial statements. Certain comparative amounts in the financial statements are reclassified and rearranged where relevant, to conform to the current year's presentation.

4.26 Materiality and aggregation

Each material class of similar items has been presented separately in the financial statements. Items of dissimilar nature also have been presented separately unless they are immaterial in accordance with IAS 1 'Presentation of Financial Statements'.

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

	2022 BDT	2021 BDT
Local currency	1,067,215,649	983,982,272
Foreign currencies	38,046,528	30,300,279
	1,105,262,177	1,014,282,551

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

Bangladesh Bank - Local currency	18,461,645,781	10,555,982,825
Bangladesh Bank Amanah - Local currency	2,500,000	2,500,000
Total - Local currency (Annexure - E)	18,464,145,781	10,558,482,825
Bangladesh Bank - Foreign currencies clearing and capital accounts (Annexure - E)	10,024,487,041	14,624,006,210
	28,488,632,822	25,182,489,035
	29,593,894,999	26,196,771,586

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

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

CRR and SLR requirements are calculated based on the ATDTL of two months prior to the reporting month (e.g. CRR and SLR requirements for the month of December 2022 has been calculated on the basis of ATDTL of the month of October 2022.

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

Portrayed below in note 5 (iv) and (v), the bank's compliance with the CRR requirement on both onshore and offshore basis, based on the cash balances of period end and of the last two weeks of the financial year ended on 31 December 2022. In note 5 (vi), the Bank demonstrates compliance with the SLR requirement on both onshore and offshore basis, based on period end cash balances and holding of government securities on 31 December 2022.

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

	2022 BDT	2021 BDT
Required reserve		
- Onshore (including Amanah)	6,690,635,246	5,128,922,015
- Offshore	1,608,771,810	2,140,961,666
	8,299,407,056	7,269,883,681
Actual reserve held with Bangladesh Bank	19,246,199,544	10,560,701,100
Surplus	10,946,792,488	3,290,817,419

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

	2022	2021
Required reserve		
- Onshore (including Amanah)	7,646,440,281	5,861,625,160
- Offshore	2,145,029,080	2,854,615,555
	9,791,469,361	8,716,240,715
Bi-weekly average reserve held with Bangladesh Bank (Annexure - D)	16,279,863,074	12,214,635,615
Surplus	6,488,393,713	3,498,394,900

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

	2022	2021
Required reserve		
- Onshore (including Amanah)	24,850,524,373	19,049,802,568
- Offshore	13,942,689,022	18,555,001,106
	38,793,213,395	37,604,803,674
Actual reserve held with Bangladesh Bank	58,599,516,100	68,840,951,426
Surplus	19,806,302,705	31,236,147,752

6 Balance with other banks and financial institutions

In Bangladesh - current account		
IFIC Bank Limited	-	300
Sonali Bank local office	51,379,454	12,386,556
United Commercial Bank	1,068,083	1,025,265
Standard Chartered Bank	45,081,076	28,830,516
Pubali Bank Limited	49,927,940	49,944,090
	147,456,553	92,186,727
Short term deposit		
IFIC Bank Limited	13,463,972	13,474,873
Prime Bank Limited	7,500,470	7,500,325
Sonali Bank	30,501,833	29,951,962
United Commercial Bank	5,040,965	4,965,475
	56,507,240	55,892,635
	203,963,793	148,079,362

Outside Bangladesh - current account		
HSBC Hong Kong - HKD	24,871,821	15,898,576
HSBC Hong Kong Global ATM settlement account - HKD	4,880,384	20,553,311
HSBC Hong Kong - CNY	646,273,163	10,900,792
Settlement account with HSBC Hong Kong USD	58,706,895	812,072,350
HSBC Japan JPY	49,346,229	47,460,721

HSBC Singapore SGD	6,246,228	1,186,484
HSBC India USD	666,677,099	324,771,391
Credit Suisse AG Switzerland CHF	418,833,352	251,399,257
HSBC Bank PLC UK GBP	143,227,278	196,510,627
HSBC Bank USA USD	17,262,095,105	1,779,407,361
SCB Pakistan USD	385,297,299	318,478,584
HSBC Sri Lanka USD	381,903	16,945,688
HSBC Bank Australia TT account AUD	3,242,999	1,605,462
HSBC Bank Australia DD account AUD	31,033	27,687
HSBC Bank Canada CAD	5,245,570	3,331,379
HSBC France EUR	1,002,343,026	1,395,786,667
Danske Bank Denmark DKK	29,779	25,511
HSBC India EUR	76,291,961	66,985,265
HSBC Dubai AED	43,415	200,097
(For detail see Annexure - B)	20,754,064,539	5,263,547,210
	20,958,028,332	5,411,626,572

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

Current account (including foreign currency nostro)	20,901,521,092	5,355,733,937
Short term deposit account	56,507,240	55,892,635
	20,958,028,332	5,411,626,572

6.2 Maturity grouping of balance with other banks and financial institutions

Payable on demand	20,901,521,092	5,355,733,937
Payable within one month	56,507,240	55,892,635
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	-	-
	20,958,028,332	5,411,626,572

7 Money at call on short notice

HSBC Hongkong	12,905,862,500	14,508,089,000
	12,905,862,500	14,508,089,000

8 Investments

Held to Maturity Securities (HTM)		
91 day Treasury bills	9,911,266,435	599,892,765
182 day Treasury bills	3,905,064,407	3,046,842,862
364 day Treasury bills	16,178,462,172	19,277,580,935
2 year Government bonds	6,549,238,039	16,879,939,961
10 year Government bonds	-	554,930,532
	36,544,031,053	40,359,187,055

HTM securities liened as capital with Bangladesh Bank for 2022 is BDT18,185,502,225 (2021: BDT18,367,157,935)

Held for Trading Securities (HFT)		
91 day Treasury bills	47,570,314,985	11,109,571,994
182 day Treasury bills	1,968,918,326	5,190,184,480
364 day Treasury bills	-	4,495,804,371
2 year Government bonds	749,472,767	4,427,209,061
5 year Government bonds	-	400,251,516
	50,288,706,078	25,623,021,422
Prize bonds	253,000	588,500
Government securities (HTM, HFT, Prize bonds)	86,832,990,131	65,982,796,977

Other investment

Shares of Central Depository Bangladesh Limited (3,000,000 unquoted ordinary shares including 2,400,000 bonus shares @ Tk 10 each). As per last audited financial statement of CDBL, book value per share is higher than the cost price of the investment.	6,000,000	6,000,000
	6,000,000	6,000,000
	86,838,990,131	65,988,796,977

8.1 Maturity grouping of investments

Payable on demand	253,000	588,500
Payable within one month	23,167,601,355	8,550,778,872
More than one month but less than three months	53,394,281,935	17,817,321,791
More than three month but less than one year	10,270,853,841	36,606,296,842
More than one year but less than five years	-	3,007,810,972
More than five years	6,000,000	6,000,000
	86,838,990,131	65,988,796,977

8.2 Outstanding repo as at 31 December

	2022 BDT	2021 BDT
Counterparty name	Agreement date	Reversal date
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
2022			
Securities sold under repo:			
i) with Bangladesh Bank	970,171,000	970,171,000	2,658,003
ii) with other banks and financial institutions	-	-	-
Securities purchased under reverse repo:			
i) with Bangladesh Bank	-	-	-
ii) with other banks and financial institutions	-	-	-
2021			
Securities sold under repo:			
i) with Bangladesh Bank	-	-	-
ii) with other banks and financial institutions	-	-	-
Securities purchased under reverse repo:			
i) with Bangladesh Bank	-	-	-
ii) with other banks and financial institutions	-	-	-

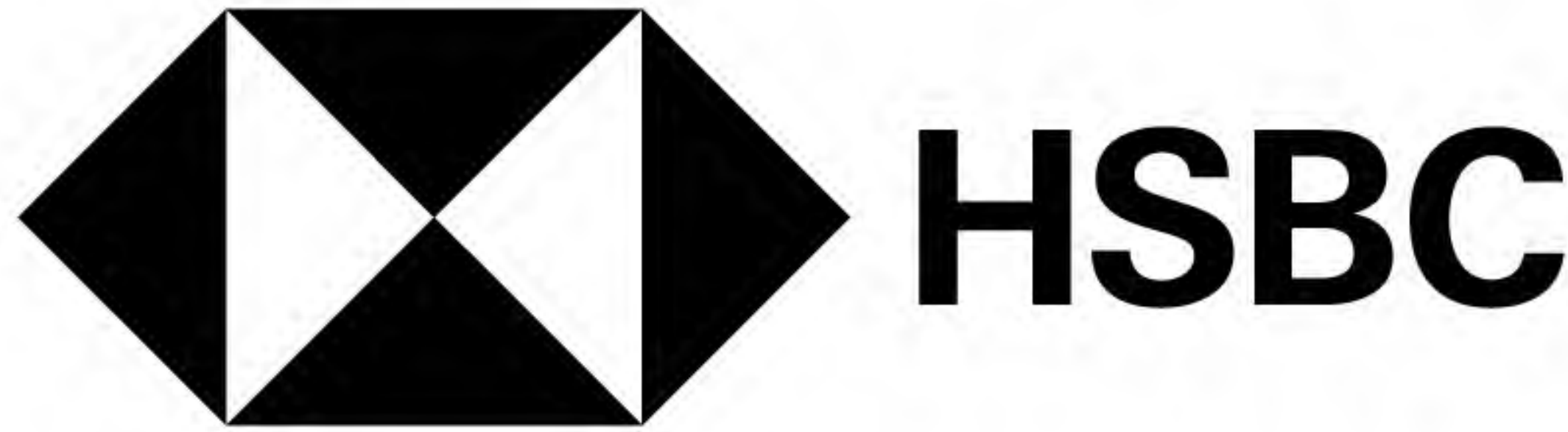
9 Loans and advances

Loans, cash credits, overdrafts:

In Bangladesh:		
Staff loans	1,355,984,545	1,361,922,883
Home mortgage loans	754,461,673	950,422,258
Car loans	6,547,582	6,248,446
Personal loans	1,838,459,582	1,525,884,272
Overdraft for retail	184,737,750	253,830,379
Overdraft for corporate	5,853,286,743	4,790,254,837
Term loans	40,243,285,845	40,444,211,665
Import loans	46,150,583,896	39,039,940,239
Export Loans	2,906,938,706	5,074,556,971
Working capital	61,629,747,067	43,376,607,649
	160,924,033,389	136,823,889,599
Outside Bangladesh:		
	160,924,033,389	136,823,889,599
Bills purchased and discounted (note 9.10)	64,685,935,814	103,053,756,949
	225,609,969,203	239,877,646,548

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

Payable on demand	10,346,425,786	6,702,958,833
Payable within one month	30,576,632,804	38,165,688,531
More than one month but less than three months	74,774,625,251	67,972,559,634
More than three months but less than one year	68,160,780,210	84,847,708,725
More than one year but less than five years	27,575,023,458	30,766,435,471
More than five years	14,176,481,694	11,422,295,354
	225,609,969,203	239,877,646,548



FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

Bangladesh Branches

9.2 Analysis of significant concentration of loans and advances including bills purchased and discounted	2022 BDT	2021 BDT
Advances to allied concerns of directors	-	-
Advances to the chief executive officer	11,687,463	7,639,154
Advances to other senior executives and staff of the Bank	1,344,297,081	1,354,283,729
Advances to customers' group	116,527,665,004	149,904,649,513
Industrial advances	107,726,319,655	88,611,074,152
	<u>225,609,969,203</u>	<u>239,877,646,548</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 Large Borrowers (who/which have availed/ outstanding 10% or More of Capital)	25	17
Amount of outstanding advances	99,513,138,602	93,048,051,037
Amount of classified advances	-	-
Large Loan Outstanding		
Total Funded Large Loan Outstanding	99,513,138,602	93,048,051,037
Total Non-Funded Large Loan Outstanding	55,389,785,977	48,549,803,728
Total large Loan Outstanding	154,902,924,579	141,597,854,765
Total Funded Outstanding (A)	225,609,969,203	239,877,646,548
Total Non Funded Outstanding	261,103,768,816	208,269,477,289
Total Non Funded Outstanding eligible for Large Loan calculation (B)	128,748,402,733	104,134,738,645
Total Funded Outstanding & Eligible Non Funded Outstanding (A+B)	354,358,371,936	344,012,385,193
Large Loan Ratio	43.71%	41.16%

9.4 Cash collateral against total outstanding loans and advances as at 31 December	2022	2021
	1,266,716,674	1,693,287,282

9.5 Loans and advances including bills purchased and discounted		
Loans	219,571,944,710	234,833,561,332
Overdrafts	6,038,024,493	5,044,085,216
	<u>225,609,969,203</u>	<u>239,877,646,548</u>

9.6 Particulars of loans and advances: industry-wise classification		
Readymade garments	54,146,024,441	51,598,272,612
Textile industries	37,374,295,745	33,800,260,449
Agriculture and agro processing	27,386,401,891	33,485,618,999
Steel and metal	9,049,585,410	10,536,484,692
Trade	944,422,510	867,055,849
Chemical and pharmaceuticals	14,924,083,862	12,441,366,578
Cement industries	5,321,400,494	10,149,420,430
Non Government Organization (NGO)	9,718,316,590	6,731,477,164
Power and energy	16,679,745,736	12,530,227,723
Retail loans	2,784,206,587	2,736,385,355
Staff loans	1,355,984,545	1,361,922,883
Others	45,925,501,392	63,639,153,814
	<u>225,609,969,203</u>	<u>239,877,646,548</u>

9.7 Classification of loans and advances		
Unclassified:		
Standard	219,181,331,630	234,709,933,349
Special Mention Account	441,558,548	719,351,430
	<u>219,622,890,178</u>	<u>235,429,284,779</u>
Classified:		
Substandard	29,281,331	558,796,301
Doubtful	15,301,557	597,596,409
Bad/Loss	5,941,956,137	3,291,969,059
	<u>5,987,079,025</u>	<u>4,448,361,769</u>
	<u>225,609,969,203</u>	<u>239,877,646,548</u>

9.8 Particulars of loans and advances		
i) Loans considered good in respect of which the Bank is fully secured;	162,149,000,926	161,381,676,062
ii) Loans considered good against which the Bank holds no security other than the debtor's personal guarantee;	62,104,983,732	77,134,047,603
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;	1,355,984,545	1,361,922,883
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;	1,373,294,017	1,371,572,274
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)	1,614,084,909	2,112,918,279
Amount of loans written off	33,250,684	156,203,521
Amount realised against the loan previously written off	18,200,061	17,965,789
b) Provision on classified loans and advances (For movement see note 14.2)	4,307,651,175	2,693,566,266
c) Interest creditable to the interest suspense account (note 14.3)	1,195,182,122	689,327,579
xi) Cumulative amount of written off loans		
Opening balance	3,102,638,267	2,946,434,746
Amount written off during the year	33,250,684	156,203,521
	<u>3,135,888,951</u>	<u>3,102,638,267</u>
The amount of written off loan for which law suit has been filed	2,899,383,575	2,866,703,931

9.9 Geographical analysis of loans and advances		
Dhaka division	201,849,740,305	216,829,820,591
Chattogram division	23,760,228,898	23,047,825,957
	<u>225,609,969,203</u>	<u>239,877,646,548</u>

9.10 Bills purchased and discounted		
Inside Bangladesh	1,179,639	6,167,570
Outside Bangladesh	64,684,756,175	103,047,589,379
	<u>64,685,935,814</u>	<u>103,053,756,949</u>

9.11 Maturity analysis of bills purchased and discounted		
Payable on demand	720,669,479	867,410,838
Payable within one month	13,645,884,648	16,512,932,739
More than one month but less than three months	22,135,964,876	34,214,718,222
More than three months but less than six months	16,370,562,306	36,079,724,314
More than six months	11,812,854,505	15,378,970,836
	<u>64,685,935,814</u>	<u>103,053,756,949</u>

10 Fixed assets including premises, furniture and fixtures		
2022		
Cost		
Balance as at 1 January	519,150,159	626,041,478
Addition during the year	275,195,672	14,078,468
Disposals/adjustment	(37,736,230)	(26,566,518)
Balance as at 31 December	<u>756,609,601</u>	<u>613,553,428</u>
Accumulated Depreciation and impairment charges		
Balance as at 1 January	194,590,962	398,987,280
Depreciation charge for the year	140,115,478	40,140,424
Disposals/adjustments	(30,684,619)	(28,596,883)
Balance as at 31 December	<u>304,021,821</u>	<u>410,530,821</u>
Net book value as at 31 December 2022	<u>452,587,780</u>	<u>203,022,607</u>
2021		
Cost		
Balance as at 1 January	519,150,159	626,041,478
Addition during the year	275,195,672	14,078,468
Disposals/adjustment	(37,736,230)	(26,566,518)
Balance as at 31 December	<u>756,609,601</u>	<u>613,553,428</u>
Accumulated Depreciation and impairment charges		
Balance as at 1 January	194,590,962	398,987,280
Depreciation charge for the year	140,115,478	40,140,424
Disposals/adjustments	(30,684,619)	(28,596,883)
Balance as at 31 December	<u>304,021,821</u>	<u>410,530,821</u>
Net book value as at 31 December 2021	<u>452,587,780</u>	<u>203,022,607</u>

2021	Furniture and fixtures	Equipment	Motor vehicles	Computers	Total
Cost	BDT	BDT	BDT	BDT	BDT
Balance as at 1 January	221,907,847	671,166,372	29,615,614	440,371,955	1,363,061,788
Addition during the year	394,531,852	147,893,912	-	11,445,625	553,871,389
Disposals/adjustment	(97,289,540)	(193,018,806)	-	(134,620,721)	(424,929,067)
Balance as at 31 December	<u>519,150,159</u>	<u>626,041,478</u>	<u>29,615,614</u>	<u>317,196,859</u>	<u>1,492,004,110</u>
Accumulated Depreciation and impairment charges					
Balance as at 1 January	203,158,954	530,381,243	21,082,991	285,964,278	1,040,587,466
Depreciation charge for the year	79,211,326	58,527,406	3,199,734	30,573,618	171,512,086
Disposals/adjustments	(87,779,318)	(189,921,369)	-	(134,620,721)	(412,321,408)
Balance as at 31 December	<u>194,590,962</u>	<u>398,987,280</u>	<u>24,282,725</u>	<u>181,917,175</u>	<u>799,778,144</u>
Net book value as at 31 December 2021	<u>324,559,197</u>	<u>227,054,198</u>	<u>5,332,889</u>	<u>135,279,684</u>	<u>692,225,966</u>

11 Other assets	2022 BDT	2021 BDT
Classification of other assets		
a) Income generating other assets	-	-
b) Non-income generating other assets		
Stamp in hand	1,604,829	865,141
Intangible assets (note 11.1)	8,023,878	6,929,229
Other debtors (note 11.2)	6,329,766,996	144,486,454
Deferred tax (note 11.3)	752,219,306	1,600,240,544
Rent paid in advance	8,287,999	5,139,172
Other prepayments	84,235,131	79,250,200
Refundable deposits	5,970,998	6,943,348
Accrued interest receivable from Bangladesh Bank	227,784,226	196,775,211
Accrued coupon interest on Bangladesh government treasury bond	94,695,912	477,605,730
Interest on balance with other banks and financial institutions	5,199,118	20,065,730
Commission receivable	44,744,162	87,813,828
Encashment of Bangladesh Sanchayapatra awaiting for reimbursement from Bangladesh Bank	150,009,065	249,484,262
Net surplus asset of defined benefit schemes (Note 24.2.4)	141,619,000	-
Unrealised gain on foreign exchange contracts	23,808,050	11,031,481
Right of use assets as per IFRS 16	1,163,542,777	916,335,660
	<u>9,041,511,447</u>	<u>3,802,965,562</u>
	<u>9,041,511,447</u>	<u>3,802,965,562</u>

11.1 Intangible assets (Purchased software)		
Cost		
Balance as at 1 January	62,993,113	60,658,429
Acquisition during the year	6,143,125	1,890,750
Disposals/adjustment	(618,058)	443,934
Balance as at 31 December	<u>68,518,180</u>	<u>62,993,113</u>
Accumulated amortisation		
Balance as at 1 January	56,063,884	49,951,634
Charge for the year	5,415,976	5,668,376
Disposals/adjustment	(985,558)	443,934
Balance as at 31 December	<u>60,494,302</u>	<u>56,063,884</u>
Net book value as at 31 December	<u>8,023,878</u>	<u>6,929,229</u>

11.2 Other debtors		
Security charges recoverable	2,693,191	8,044,659
Transitory Suspense related to ATM	15,670,783	19,283,165
Trade payment related suspense account	6,039,394,460	-
Others	272,008,562	117,158,630
	<u>6,329,766,996</u>	<u>144,486,454</u>

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
2022	2021	2022
BDT	BDT	BDT

Specific provisions on loans and advances	1,681,802,947	1,034,748,884	-	-	1,681,802,947	1,034,748,884
Fixed assets	116,822,718	63,430,678	-	-	116,822,718	63,430,678
Right of Use Assets (IFRS 16)	180,115,612	143,446,954	-	-	180,115,612	143,446,954
Intangible assets	-	(1,185,068)	(991,975)	(1,185,068)	(991,975)	(991,975)
Actuarial (gain)/losses	296,998,354	353,645,954	-	-	296,998,354	353,645,954
Foreign exchange translation	-	(1,296,346,254)	(31,984,981)	(1,296,346,254)	(31,984,981)	(31,984,981)
Unrealised interest on amortisation of HTM securities	-	37,945,030	(225,989,003)	-	(225,989,003)	37,945,030
Unrealised interest on revaluation of HFT securities	-	-	-	-	-	-
Total	<u>2,275,739,631</u>	<u>1,633,217,500</u>	<u>(1,523,320,325)</u>	<u>(32,976,956)</u>	<u>752,219,306</u>	<u>1,600,240,544</u>

Deferred tax is calculated using the tax rates expected to apply in the periods in which the assets will be realised or the liabilities settled, based on tax rates and laws enacted, by the balance sheet date. Following are the descriptions for each individual item of the deferred tax that are recognised by the Bank as a temporary difference with expected time of realisation.		
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Specific provisions on loans and advances		
As per local tax rules, provisions for bad loans are not tax allowable. Hence these impairment charges are added back to income at the time of computation of total income. However, the tax office will allow the loan write off as a tax allowable expense provided that legal action has been instigated. Therefore this item creates a temporary difference, as at some point of time in the future the Bank will either make recovery or write off the loan. In accordance with IAS 12, the Bank recognises the deferred tax on specific provision which creates a deductible temporary difference to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised.		
The deferred tax will be reversed as soon as the related bad loan is either recovered or written off. Though the expected time frame of recovery is unknown, the bad loans must be written off within 5 years of being classified as per the central bank directives. So the deferred tax is expected to be reversed within five years. The following table shows the year of origin that the Bank recognised the deferred tax assets on such specific provision. The amount recognised and realised in the current year profit and loss is shown in the note 11.4.		

Year of loan classification	Year of deferred tax recognition	Deferred tax amount	
		2022 BDT	2021 BDT
2011	2012	71,837,138	71,812,934
2013	2014	86,424,217	77,764,511
2020	2020	79,564,033	71,858,267
2021	2021	1,290,320,068	813,313,172
2022	2022	153,657,491	-
Total		<u>1,681,802,947</u>	<u>1,034,748,884</u>

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

Actuarial gains/(losses)		
The bank recognises deferred tax assets/(liabilities) on actuarial gains/ (losses) arising 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 disposal of such securities.		

11.4 Movement of deferred tax	2022 BDT	2021 BDT
Balance as at 1 January	1,600,240,543	421,868,305
(Charge)/credit to profit and loss account (note 11.4.1)	736,921,669	840,751,862
(Charge)/credit to reserves (note 11.4.2)	(1,584,942,906)	337,620,376
Balance as at 31 December	<u>752,219,306</u>	<u>1,600,240,543</u>

11.4.1 Deferred tax (charged)/credited to profit and loss account					
	Difference between tax depreciation and accounting depreciation (fixed assets) BDT	Difference between tax depreciation and accounting depreciation (Right of Use Assets) BDT	Difference between tax amortisation and accounting amortisation (intangible assets) BDT	Specific provision on loans and advances BDT	Total BDT
<u>2022</u>					
Balance as at 1 January	63,430,678	143,446,954	(991,975)	1,034,748,884	1,240,634,541
(Charge)/credit to profit and loss account	53,392,040	36,668,658	(193,093)	647,054,063	736,921,669
Balance as at 31 December	116,822,718	180,115,612	(1,185,068)	1,681,802,947	1,977,556,209

2021		
Balance as at 1 January	87,729,675	106,601,628
(Charge)/credit to profit and loss account	(24,298,997)	36,845,326
Balance as at 31 December	<u>63,430,678</u>	<u>143,446,954</u>

11.4.2 Deferred tax (charged)/credited to reserves		
	Actuarial gains/(losses) BDT	Unrealised interest on amortisation



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

	2022 BDT	2021 BDT
Payable on demand	228,453,675	816,319,028
Payable within one month	3,136,438,435	12,595,411,064
More than one month but less than three months	11,587,085,588	4,366,998,891
More than three months but less than one year	14,570,929,641	33,987,095,084
More than one year but less than five years	80,963,121,573	93,002,824,409
	110,486,028,912	144,768,648,476

13 Deposits and other accounts

Current deposits and other accounts		
Current account	83,652,002,767	56,194,106,492
Sundry deposits*	21,840,589,982	11,674,622,967
	105,492,592,749	67,868,729,459
Bills payable		
Cashiers order issued	1,018,144,686	850,868,514
Drawings payable	6,287,422,402	3,401,087,540
	7,305,567,088	4,251,956,054
Saving deposits	35,528,575,622	27,242,668,042
Term deposits		
Short term deposits	22,447,304,024	12,927,839,954
Fixed deposits	36,494,316,192	43,991,633,717
	58,941,620,216	56,919,473,671
	207,268,355,675	156,282,827,226

* Sundry deposits include BDT20,531,696 which had remained unclaimed for more than 10 years as of 31 December 2022 (2021: BDT27,311,835). 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 2023.

13.1 Maturity analysis of deposits and other accounts

Payable on demand	19,994,870,968	12,628,287,678
Payable within one month	19,915,646,564	15,902,525,684
More than one month but less than three months	26,085,715,199	25,996,624,758
More than three months but less than one year	80,349,397,670	35,636,125,369
More than one year but less than five years	60,922,725,274	66,119,263,737
	207,268,355,675	156,282,827,226

14 Other liabilities

Accrued interest on customer deposits and borrowings	986,385,345	583,181,727
Deferred income	218,698,704	251,164,608
Provisions for liabilities and charges (note 14.1)	1,244,247,462	964,677,660
Other creditors	1,157,217,198	579,633,009
Items in course of transmission	205,515,785	165,862,105
Provision for loans and advances and off balance sheet exposures (note 14.2)		
- For loans and advances and off balance sheet exposures	8,472,847,120	6,603,636,226
- Special general provision- COVID-19	2,997,285	14,341,195
Interest suspense account (note 14.3)	1,195,182,122	689,327,579
Interest received on non performing advances	682,889,995	644,972,483
Provision for taxation (note 14.4)	2,387,891,029	551,802,161
Provision for start-up fund	150,682,797	91,890,228
Payable to Head Office	1,053,199,081	633,213,796
Unrealised loss on foreign exchange contracts	1,613,441	34,886,446
Leasehold Liabilities under IFRS-16	1,200,473,405	788,089,119
	18,959,840,769	12,596,678,342

14.1 Provision for liabilities and charges

Balance as at 1 January	964,677,660	843,005,513
Net charge to profit and loss account	596,085,967	208,940,356
Net release of provision	(316,516,165)	(87,268,209)
Balance as at 31 December	1,244,247,462	964,677,660

14.2 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
2022					
Balance as at 1 January	2,371,315,010	1,553,096,145	3,924,411,155	2,693,566,266	6,617,977,421
Written off (net of recovery) during the year	-	-	-	6,486,437	6,486,437
Release during the year	-	-	-	(36,398,062)	(36,398,062)
Provision made during the year	(181,439,425)	425,221,500	243,782,075	1,643,996,534	1,887,778,609
Balance as at 31 December	2,189,875,585	1,978,317,645	4,168,193,230	4,307,651,175	8,475,844,405

2021					
Balance as at 1 January	2,368,579,797	1,201,080,271	3,569,660,068	580,647,987	4,140,308,055
Written off (net of recovery) during the year	-	-	-	(19,238,271)	(19,238,271)
Release during the year	-	-	-	(24,482,223)	(24,482,223)
Provision made during the year	12,735,213	352,015,874	364,751,087	2,156,638,773	2,521,389,860
Balance as at 31 December	2,371,315,010	1,553,096,145	3,924,411,155	2,693,566,266	6,617,977,421

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

Required general provision		
On loans and advances at 0.25% to 2% under different categories of unclassified loans/investments (standard/SMA)	2,186,878,299	2,356,973,814
Special general provision- COVID-19	2,997,285	14,341,195
On off balance sheet exposures @ 1%	1,978,317,646	1,553,096,145
	4,168,193,230	3,924,411,154

Required specific provision		
On substandard loans and advances/investments other than agricultural loans @ 20%	1,961,360	96,936,576
On doubtful loans and advances/investment other than agricultural loans @ 50%	3,160,767	269,773,252
On substandard and doubtful agricultural loans @ 5%	-	-
On bad/loss and advances/investments @ 100%	4,302,529,048	2,326,856,438
	4,307,651,175	2,693,566,266
Total required provision	8,475,844,405	6,617,977,420
Total maintained provision	8,475,844,405	6,617,977,420
Surplus/(Shortfall)	-	-

14.3 Interest suspense account

Balance as at 1 January	689,327,579	459,619,834
Recoveries during the year	(7,249,919)	(1,675,658)
Written off during the year	(11,670,537)	(65,975,981)
Provision made during the year	524,774,999	297,359,384
Balance as at 31 December	1,195,182,122	689,327,579

14.4 Provision for tax net of advance income tax paid

	2022 BDT	2021 BDT
Provision for tax		
Balance as at 1 January	3,818,742,362	4,012,900,014
Provision made during the year		
Onshore unit	4,175,619,359	2,481,502,587
Offshore unit	1,217,054,292	1,031,708,987
	5,392,673,651	3,513,209,574
Adjustments made during the year		
Onshore unit	(2,485,321,310)	(2,721,970,231)
Offshore unit	(1,027,888,264)	(985,396,994)
	(3,513,209,574)	(3,707,367,225)
Balance as at 31 December	5,698,206,439	3,818,742,363
Advance income tax paid		
Balance as at 1 January	3,266,940,201	3,278,181,918
Amount paid during the year	3,553,566,746	3,572,126,460
Adjustments made during the year	(3,510,191,537)	(3,583,368,176)
Balance as at 31 December	3,310,315,410	3,266,940,202
Net provision	2,387,891,029	551,802,161

Provision for income tax is on the basis of applicable income tax regulations of Bangladesh. Tax return for the financial year ended 31 December 2022 is expected to be filed with the tax authority by the due date of 15 September 2023.

The dispute for the accounting years 2006, 2007, 2009, 2010, 2011, 2012, 2013, 2016, 2017 and 2018 are yet to be settled. The tax authority has 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 the accounting years 2013, 2016, 2017 and 2018, tax authority has disallowed certain expenses which created tax disputes and are yet to be settled.

For accounting year 2006, 2007, 2009, 2010, 2011, 2012 and 2013, Bank has filed reference application to the High Court against the order of Taxes Appellate Tribunal. For accounting year 2016, the Bank has received CT Appeal order and Appellate Tribunal Order in favor of the Bank. However, the tax authority filed an appeal to the High Court, hence Sub-Judice under the High Court Division. For accounting year 2017, the Bank has filed an appeal to the Commissioner of Taxes (Appeal) against the order of DCT and received CT Appeal Order in favor of the Bank. However, an appeal has been filed by tax authority against the order of the Commissioner of Taxes (Appeal) to the Appellate Tribunal. For accounting year 2018, The DCT has finalized the assessment order with an additional claim and Bank has already filed an appeal to the Commissioner of Taxes (Appeal) against the order of the DCT. For the accounting years 2019, 2020 and 2021 Bank is yet to receive the assessment order from the tax authority.

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

14.5 Effective tax rate

Profit before taxation as per profit and loss account	10,531,990,809	6,332,137,962
Tax provisions	4,652,733,946	2,548,458,663
Effective tax rate	44.18%	40.25%
Tax provisions at Corporate Tax rate @40%	4,212,796,324	2,532,855,185

15 Capital

Fund deposited with Bangladesh Bank at 1 January	3,167,775,997	3,135,747,494
Exchange difference:		
USD 35,938,625 x (103.2469 - 85.3417)	643,488,268	32,028,503
Funds deposited with Bangladesh Bank at 31 December	3,811,264,265	3,167,775,997

16 Other reserves

Unrealised interest on amortisation of HTM securities		
Opening balance	(56,917,545)	407,885,725
Unrealised interest on amortisation of HTM securities during this year	566,921,205	(94,786,545)
Unrealised interest on amortisation of HTM securities realised during this year	92,913,875	(679,885,572)
	659,835,081	(774,672,117)
Deferred tax assets/(liabilities) (note 11.4.2)	(262,934,032)	309,868,847
	395,901,049	(464,803,270)
	338,983,504	(56,917,545)

Unrealised interest on revaluation of HFT securities		
Opening balance	-	1,936,001
MTM reserve for HFT during this year	-	-
MTM reserve for HFT realised during this year	-	(3,226,668)
	-	(3,226,668)
Deferred tax assets/(liabilities) (note 11.4.2)	-	1,290,667
	-	(1,936,001)
	-	-

Actuarial gain/(loss):		
Opening balance	(530,468,930)	(433,284,241)
Actuarial gain/(loss) during this year (note 24.2.4)	141,619,000	(161,974,481)
Deferred tax assets/(liabilities) (note 11.4.2)	(56,647,600)	64,789,792
	84,971,400	(97,184,689)
	(445,497,530)	(530,468,930)

Foreign Exchange Translation Reserve:		
Opening balance	47,977,470	(9,515,923)
Translation gain/(loss) during this year	3,160,303,183	95,822,323
Deferred tax assets/(liabilities) (note 11.4.2)	(1,264,361,273)	(38,329,930)
	1,896,541,910	57,493,393
	1,944,519,380	47,977,470
	1,838,005,354	(539,409,005)

17 Profit and loss account

Opening balance	40,201,601,175	38,929,347,049
Profit for the year	5,879,256,863	3,783,679,299
Exchange difference	-	(21,419,912)
Provision for Start-up Fund	(58,792,569)	(91,890,228)
Prior period adjustment	59,232,727	-
Profit remitted to head office	(2,721,723,245)	(2,398,115,033)
Closing balance (note 33.8)	43,359,574,951	40,201,601,175

18 Contingent liabilities

Acceptances and endorsements	72,944,540,567	33,715,554,489
	72,944,540,567	33,715,554,489
Letters of guarantee:		
Money for which the Bank is contingently liable in respect of guarantees given favouring Government Bank and other financial institutions	83,889,345,791	72,153,297,847
Others	2,335,637,067	2,175,345,793
	108,464,001,192	74,328,643,640
Others		
Irrevocable letters of credit	79,695,227,199	86,781,076,601
Foreign exchange contracts - spot and forward	1,556,391,160	2,673,364,702
	81,251,618,359	89,454,441,303
	262,660,159,976	210,942,841,993

19 Interest income and profit received

Staff loans	46,746,814	43,432,899
Home mortgage loans	98,749,742	61,429,950
Car loans	23,580	14,852
Personal loans	138,462,077	116,549,010
Overdraft	380,083,395	330,830,767
Term loans	1,984,202,251	2,309,058,307
Import loans	1,753,962,529	1,367,102,518
Working capital	3,708,711,957	3,017,552,525
Export and import bills	3,306,525,285	2,560,204,906
Income from money market	298,122,405	14,246,403
Other correspondent bank	1,016,006	3,241,703
Income from nostro accounts	21,837,709	182,544
Income from inter-group lending	87,772,777	741,549
Income from Bangladesh Bank foreign currency account	44,512,702	19,630,585
	11,870,729,209	9,844,218,517

20 Interest and profit paid on deposits and borrowings

	2022 BDT	2021 BDT
Saving accounts	412,455,723	341,908,681
Term deposits	934,125,892	1,258,549,910
Marginal deposit	55,313,137	34,789,576
Interest paid on lease	70,494,556	76,938,110
Interest on vostro and overdrawn nostro	3,447,960	2,040,422
Money market call borrowing	310,022	732,500
Term borrowing from Bangladesh Bank	189,738,454	140,808,647
Borrowing from banks	1,460,518,507	306,495,578
Interest on repo	152,835	-
Interest on Euro currency clearing balance	7,169,258	12,553,462
	3,133,726,344	2,174,816,886

21 Income from investment

Interest on treasury bills/bonds	2,118,154,186	1,993,408,677
Dividend on shares	7,500,000	7,500,000
	2,125,654,186	2,000,908,677

22 Commission, exchange and brokerage

Exchange income/loss	4,498,983,771	1,370,627,685
Commission income:		
Import LC	2,556,888,982	2,317,664,409
Export LC	472,629,503	399,210,694
Remittances	7,009,542	12,133,388
Account services	59,597,475	35,837,277
Credit facilities	235,228,079	219,448,343
Collection bills	207,304	232,026
Global custody	55,095,358	75,255,546
Other commissions and charges	308,237,274	257,829,646
	3,694,839,517	3,317,611,329
	(82,557,652)	(69,411,228)
Commission paid	3,612,335,865	3,248,200,101
	8,111,319,636	4,618,827,786

23 Other operating income

Profit/(loss) on disposals of fixed assets	(3,865,247)	(5,741,466)
Other income	(63,301,821)	8,779,248
	67,167,068	3,037,782

24 Salaries and allowances

Short term employee benefits		
Basic salary	1,627,037,396	1,554,785,736
Allowances	298,537,385	300,666,572



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27 Other operating expenses

	2022 BDT	2021 BDT
Charitable donation*	341,918,990	98,473,191
Subscription of corporate member fees	19,787,356	20,225,109
Training and entertainment expenses	42,027,559	23,381,229
Staff entertainment expenses	25,337,374	8,233,459
Outsourced service cost	95,937,204	121,602,728
Security expenses	54,572,684	56,522,662
Staff recruitment costs	2,203,062	1,426,234
Transportation and conveyance expenses	28,932,097	43,620,295
Generator, motor vehicles fuel and other charges	5,572,238	1,731,370
Central storage cost	46,341,882	54,998,468
Short term lease expenses	15,505,860	16,896,768
Other office expenses	105,200,975	120,471,563
Head office expense	1,053,199,081	633,213,796
	1,836,536,362	1,200,796,872

*This includes amount set aside for CSR fund as per regulatory directive

28 Capital adequacy under Basel III

Total Risk Weighted Assets (RWA) as on 31 December	221,453,890,451	212,653,307,867
12.50% of RWA under Basel III (including capital conservation buffer)	27,681,736,306	26,581,663,483
Required capital: The higher of 12.50% of RWA or BDT4 billion	27,681,736,306	26,581,663,483

Actual Capital maintained

Common Equity Tier I

Fund deposited with Bangladesh Bank (Note-15)	3,811,264,265	3,167,775,997
Profit & loss Account (Note-17)	43,359,574,951	40,201,601,175
Actuarial gain/(loss)	(445,497,530)	(530,468,930)
Less: Regulatory adjustment for Goodwill and all other intangible assets as per the Bangladesh Bank guideline	(5,061,208)	(4,449,291)
Less: Regulatory adjustment for Deferred tax assets as per the Bangladesh Bank guideline	(2,191,649,485)	(1,581,480,055)
Less: Regulatory adjustment due to WPPF	(2,575,128,253)	(2,295,163,640)
	41,953,502,741	38,957,815,257

Additional Tier I

	-	-
Total Tier I	41,953,502,741	38,957,815,257

Tier II

General provision	4,168,193,230	3,924,411,155
	4,168,193,230	3,924,411,155
Total capital	46,121,695,971	42,882,226,412
Surplus	18,439,959,665	16,300,562,928

% of Capital adequacy required

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

% of Capital adequacy maintained

Common Equity Tier - I	18.94%	18.32%
Tier - I	18.94%	18.32%
Total	20.83%	20.17%

29 Cash and cash equivalents

Cash in hand	1,105,262,177	1,014,282,551
Balance with Bangladesh Bank	28,488,632,822	25,182,489,035
Balance with other banks and financial institutions	20,958,028,332	5,411,626,572
Money at call on short notice	12,905,862,500	14,508,089,000
Prize bonds	253,000	588,500
91 day Treasury bills	57,481,581,420	11,709,464,759
	120,939,620,251	57,826,540,417

30 Amanah Banking

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

A separate set of financial statements for Amanah is required to prepare in accordance with the Banking Regulation and Policy Department (BRPD) Circular No 15 (9 November 2009). This is notable that the Bank discontinued Amanah business since 2013 and got dispensation from Bangladesh Bank vide letter ref no. DOS (SR)1153/127/2014-424 dated 28 December 2014 from preparing a separate set of financial statements for Amanah. However, as required by the dispensation letter of Bangladesh Bank, the Bank provided disclosures in note 30.1 to 30.4 to comply the disclosures requirement of Amanah. As there is no Amanah operation at present, operating expense is not allocated to Amanah.

30.1 Amanah Balance Sheet as at 31 December

	2022 BDT	2021 BDT
Assets		
Cash in hand	-	-
Balance with Bangladesh Bank	2,500,000	2,500,000
Investments	152,844,506	190,712,356
Fixed assets	-	-
Other assets	255,851,150	219,869,188
	411,195,656	413,081,544
Liabilities		
Deposits and other accounts	5,486,785	5,573,851
Other liabilities	19,734,382	33,829,797
Retained earnings	385,974,489	373,677,896
	411,195,656	413,081,544
Off balance sheet items		
Acceptances and endorsements	-	-
Letters of guarantee	-	-
Irrevocable letters of credit	-	-
Foreign exchange contracts - Spot and Forward	-	-
	-	-

30.2 Amanah Profit and Loss Account for the year ended 31 December 2022

Income from investments	23,511,424	16,059,038
Profit paid on deposits	(333)	(275)
Net investment income	23,511,091	16,058,763
Commission, exchange and brokerage	71,918	302,216
Other operating income	-	-
Total operating income	23,583,009	16,360,979
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	110,567	(75,093)
Total operating expense	110,567	(75,093)
Profit before provision	23,472,442	16,436,072

	2022 BDT	2021 BDT
Specific provision for classified investments	(4,106,042)	2,477,985
General provision for unclassified investments and off balance sheet exposures	(131,646)	(924,611)
Total provision	(4,237,688)	1,553,374
Profit before tax	27,710,130	14,882,698
Current Tax	9,388,977	6,574,429
Profit after tax for the year	18,321,153	8,308,269

30.3 Amanah Assets and Liabilities Maturities Analysis as at 31 December 2022

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	125,776	-	1,714,648	15,861,235	135,142,847	152,844,506
Fixed assets	-	-	-	-	-	-
Other assets	-	-	-	255,851,150	-	255,851,150
Non-banking assets	-	-	-	-	-	-
Total assets	2,625,776	-	1,714,648	271,712,385	135,142,847	411,195,656
Liabilities						
Placement from other banks and financial institutions	-	-	-	-	-	-
Deposits and other accounts	5,486,785	-	-	-	-	5,486,785
Other liabilities (including capital/shareholders' equity)	-	-	19,734,382	385,974,489	-	405,708,871
Total liabilities	5,486,785	-	19,734,382	385,974,489	-	411,195,656
Net liquidity difference	(2,861,009)	-	(18,019,734)	(114,262,104)	135,142,847	-

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

Daily 3.50% of average total demand and time liabilities	2022 BDT	2021 BDT
Required reserve	189,719	223,627
Actual reserve held with Bangladesh Bank	2,500,000	2,500,000
Surplus	2,310,281	2,276,373

ii) Amanah Cash Reserve Ratio (CRR):

Bi-weekly 4.00% of average total demand and time liabilities		
Required reserve	216,821	255,574
Bi-weekly average reserve held with Bangladesh Bank	2,500,000	2,500,000
Surplus	2,283,179	2,244,426

(iii) Amanah Statutory Liquidity Ratio (SLR):

5.50% of average total demand and time liabilities		
Required reserve	298,130	351,414
Bi-weekly actual reserve held with Bangladesh Bank	2,283,180	2,244,426
Surplus	1,985,050	1,893,011

31 Related party transactions

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

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

31.1 Transactions with key management personnel

There were no transactions between the Bank and the key management personnel of the Bank in 2022 (2021: nil)

31.2 Transactions, arrangements and agreements involving group entities

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

The disclosure of the year end balance is considered to be the most meaningful information to represent transactions during the year. The outstanding balances include loans made to or deposits by the Bank and arose in the ordinary course of business and are on substantially the same terms, including interest rates and security, as for comparable transactions with third party counterparties. Income received by the Bank from these entities during 2022 amounted to BDT400,715,625 (2021: BDT123,666,896) and expense paid to these entities during 2022 amounted to BDT1,503,414,633 (2021: BDT355,734,283), which is included in the net interest income and commission, exchange and brokerage income disclosed in the profit and loss account.

31.3 Transactions with post employment benefit plans

The Bank has two post employment benefit schemes, the nature of which is disclosed in note 4.18, Employee benefits. There were no balances payable to these schemes or due from these schemes to the Bank as at the end of 2022 (2021: Nil). The total contribution to these schemes in 2022 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 2022 the provident fund had placed deposit of BDT81,932,912 (2021: BDT111,659,736) and the gratuity fund had placed deposits of BDT1,958,624,824 (2021: BDT1,941,801,775) 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 2022 amounted to BDT250,229 (2021: BDT473,313) and on deposit placed by the gratuity fund in 2022 amounted to BDT4,958,330 (2021: BDT11,043,993), both of which are included in the interest expense disclosed in the profit and loss account.

32 Events after the balance sheet date

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

33 General

33.1 Core risk management

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

33.1.1 Credit risk

HSBC has historically sought to maintain a conservative, yet constructive and competitive credit risk culture. This has served the HSBC 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 HSBC 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 HSBC credit risk policy framework
- Governance and authorities
- Risk appetite and evaluation of facilities
- Key lending constraints, higher risk sectors and sustainability risk
- Risk rating systems
- Facility structures
- Lending to Banks, Non-Banks and Sovereigns
- Personal lending
- Corporate and commercial lending
- Portfolio management and stress testing
- Monitoring, control and the management of problem exposures
- Impairments and allowances

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

33.1.2 Asset liability management risk

For better management of asset and liability risk, the Bank has an established Asset Liability Management Committee (ALCO) which meets at least once a month. The members of ALCO, as at 2022 year end, were as follows:

Mr. Aminul Haque (Secretary)	Head of ALCM and Business Finance
Mr. Jignesh Chetan Ruparel (Chairman)	Chief Executive Officer
Mr. Md. Mahbub ur Rahman	Chief Executive Officer
Mrs. Tanmi Haque	Head of Wealth and Private Banking
Mr. Bashar M Tareq	Head of Markets and Security Services
Mr. Mohammad Omar Faruque	Associate Director, Treasury Balance Sheet Management
Mr. Chandra Bhal Goswami	Chief Risk Officer
Mr. Riaz A Choudhury	Acting Head of Wholesale Banking

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, ILAAP and RWA are reviewed and approved by ALCO.

33.1.3 Foreign exchange risk

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

As at 31 December 2022 the Bank has no unadjusted debit entries exceeding six months amounting, as a result, there is no requirement of nostro provisioning (As at 31 December 2021: nil) as per BRPD circular no 04 dated 12 April 2022.

33.1.4 Internal control and compliance

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

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

Third LOD is Internal Audit. Internal Audit provides independent assurance to management and the non-executive Risk and Audit Committees that our risk management, governance and internal control processes are designed and operating effectively.

33.1.5 Prevention of money laundering and terrorist financing

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

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

More specifically, to manage these risks, HSBC Bangladesh, a branch office of HSBC Hong Kong, follows relevant risk management policies set by HSBC Group and complies with all the requirements mandated by applicable regulators i.e. Bangladesh Financial Intelligence Unit (BFIU) and Hong Kong Monetary Authority (HKMA). As a result, HSBC Bangladesh has localised policies and procedures which are appropriately governed, and implemented and reinforced through regular oversight and periodic testing. The Compliance function of HSBC, headed by a Chief Compliance Officer, who also acts as the Chief Anti-Money Laundering Compliance Officer or the 'CAMLCO', has a dedicated specialized Financial Crime (FC) Risk and a Compliance Advisory team that provides the policy, framework and oversight to Business lines, Functions and Operations, leveraging specialist capabilities, data and technology to enable the bank to serve the needs of its customers and grow safely.

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

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



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33.1.6 Information technology

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

- IT Control Environment Summary
- Update on major IT related Risk issues and mitigation plan/timeline
- Internal and external Audit Status and remediation progress related to IT
- System Incident and vulnerability update

HSBC Bangladesh has an approved internal Information and Communication Technology (ICT) Security Policy (approved by Executive Committee of the bank on 23 May 2022) as per Bangladesh bank (BB) ICT security guideline requirement. HSBC Bangladesh has ICT Steering and Security Committee, DBS Compliance Council, Third Party Governance Forum (TPGF) to look after ICT and Cybersecurity related risk and controls, regulatory and legal requirement related to ICT security and IT Outsourcing compliance as mandate by BB ICT Security policy and Outsourcing policy. Besides, various awareness sessions are taken by Cybersecurity team to increase information security awareness among staff and third party vendors. It is to be noted that bank undertakes annual ICT audit as per BB ICT security guideline requirement and open issues are tracked in respective risk forums. In NOV21 bank has obtained ISO-27001 certification for its IT and Cyber security function as recommended by BB.

The Bank has a robust Business Recovery Plan (BRP) in place to ensure business continuity in case of any major disaster and aligned with BB ICT Security policy requirement. There are few applications (BACH, BEFTN, RTGS & NPSB) which do not have fully functional Disaster Recovery (DR) facility due to dependency on BB. However, for BACH and BEFTN, DR drill was successfully performed in 2022 in collaboration with BB.

33.1.7 Interest Rate Risk

Interest rate risk may arise either from trading portfolio or from non-trading portfolio. The trading portfolio of the Bank consists of Government treasury bills and bonds of different maturities as far as Interest rate risk is concern. Interest rate risk arises from mismatches between the future yield of an asset and their funding cost. Asset Liability Committee (ALCO) monitors the interest rate movement on a regular basis and the Bank's Markets Treasury team actively manages the Balance Sheet gap to reduce the risk.

33.1.8 Operational Risk

Operational risk is the risk of direct or indirect loss resulting a wide variety of causes associated with the Bank's processes, people, technology or infrastructure, or from external factors. Operational risk is inherent in the Bank's activities and as with other risk types is managed through an overall framework with checks and balances that include implementation of three line of defense, recognised ownership of the risk by the businesses and independent risk management oversight. The operational risk policy codifies the core governing principles for operational risk management and provides a framework for operational risk. In accordance with the policy, each business area is responsible to identify its key operational risks as well as the controls established to mitigate those risks and to ensure compliance with laws, regulations, regulatory administrative actions and the Bank's policies. The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the reputation of the Bank's reputation with overall cost effectiveness and innovation. In all cases, the Bank's policy requires compliance with all applicable legal and regulatory requirements.

33.1.9 Operating Environment

The Bank's operating environment during the year ended 2022 were impacted by a number of major global events such as continuation of COVID 19 related disruptions, start of Russia-Ukraine conflict, increase in fuel and commodity prices, strengthening of US Dollars, etc.. Most of these events also had significant impact on the local economic environment affecting the Bank's operations. From time to time, the Government of Bangladesh and the local Central Bank (Bangladesh Bank) has issued various directives to manage impacts from these events which the Bank has followed. Management on regular basis review and monitor the global and country specific macro-economic situation and factor these issues into the decision making process.

33.2 Audit Committee

HSBC Bangladesh does not have any Board in Bangladesh and the bank is operating as a branch office of HSBC Hong Kong. Similarly, being branch office, there is no local audit committee and the regional audit committee in Hong Kong approves the annual audit plan of Bangladesh and the same is also presented to Senior Management Team (SMT) in Bangladesh. Bank also has "Global Internal Audit Charter" and "Audit Instruction Manual" (AIM) which provides detail guidelines and procedures for conducting internal audit.

The Group Head of internal audit reports functionally to the Chair of the group audit committee and reports administratively to the Group Chief Executive. The Group Head of internal audit also provide reports to the Risk Management Meeting of the Group Executive Committee in relation to the work of that function and the disposition of its findings. The Group Head of internal audit attends the HSBC Group Executive Committee but does not participate in decision making. Audit-related matters are not subject to approval by the Group Executive Committee or any other Executive Governance body.

33.3 Disclosure on risk based capital (Basel III)

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

33.4 Exchange rates

The foreign currency income and expense items of Profit and Loss Statement for the year ended on 31 December 2022 have been converted to presentation currency using the year-to-date average conversion rate of USD/BDT @ 93.6213. The assets and liabilities of the Balance Sheet as at 31 December in foreign currencies have been converted to BDT at the following rates:

	2022 BDT	2021 BDT
USD 1 =	103.24690	85.34170
HKD 1 =	13.24349	10.94195
SGD 1 =	76.58697	63.07124
GBP 1 =	124.45381	115.08328
AUD 1 =	69.48516	61.99221
EUR 1 =	110.00957	96.58974
CHF 1 =	111.79957	93.19832
JPY 1 =	0.77266	0.74110
CAD 1 =	75.98109	66.76187
NOK 1 =	10.43942	9.67659
AED 1 =	28.11275	23.23424
CNY 1 =	14.80890	13.38903
DKK 1 =	14.79320	12.98881

33.5 Credit ratings

According to BRPD circular no.6 (05 July 2006) it is mandatory from January 2007 for all banks to be credit rated by a credit rating agency. Credit Rating Agency of Bangladesh Limited (CRAB) has issued the following ratings for the Bank for 2022:

Long-term AAA (2021: AAA)
Short-term ST - 1 (2021: ST - 1)

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

33.6 Country Risk Exposure and Provisioning

As per "Guidelines on Country Risk Management (GCRM) for Banks" issued by Bangladesh Bank vide BRPD Circular Letter No. 07 dated 13 April 2021, all scheduled banks in Bangladesh are required to disclose the risk category-wise country exposures and the extent of aggregate provisions held against the country risk. At the end of 2022, HSBC Bangladesh didn't have any risk category wise country exposures in its balance sheet and hence no provisions were required thereagainst.

33.7 Austerity Measures of the bank as per Bangladesh Bank guideline

As per BRPD circular letter no. 28 dated 26 July 2022 and BRPD circular letter no. 30 dated 27 July 2022, all scheduled banks of Bangladesh are advised to adopt austerity measures and instructed to ensure cost savings by specific percentage of the budget. The subject expense categories are: electricity and fuel, entertainment, travel, computer and accessories, electrical equipment, furniture and other stationeries. All purchases of motor vehicles including replacements have also been prohibited. The circulars also instructed not to spend the saved amount from the aforementioned categories in any other types of expenses.

To comply with these directives, the Bank has taken a number of austerity measures to feasibly achieve savings in electricity, power and other areas suggested by Bangladesh Bank. The Bank also ensures a rigorous monitoring of the progress of these cost savings initiatives. These measures are being taken despite various external challenges such as price hike of electricity and fuel and also after a careful analysis to avoid impact to customer services and other critical bank management activities.

The key austerity measures persuaded by HSBC Bangladesh are mentioned below:

- Closure of selected office premises two days every week (full and partial closure).
- Implementing day light savings to best utilize the natural sources of light
- Adherence to strict office timing and power shut down after scheduled timeline, maintenance of temperature, use modern power saving technologies etc.
- Stop purchasing any motor vehicle and stringent monitoring over the purchase of non-essential computer and accessories, electrical equipment, furniture and stationeries etc.
- Put additional control over travel & entertainment cost and emphasizing on digital communication.
- Review of different cost drivers and minimizing cost through adoption of alternative sources of supply and efficient methods of delivery.
- Formation of separate committee for cost monitoring involving senior staffs across the bank and regular monitoring of the outcome by EXCO members.

33.8 Composition of Profit and loss account

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 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. However, the inclusion of Banks within the scope of the WPPF under the Bangladesh Labour Act, 2006 is in contradiction with certain provisions under The Bank Company Act, 1991. These ambiguities are yet to be clarified; therefore on the basis of the facts currently available and also considering our financial regulators' general position, management believes that the probability of a legal obligation for payments out of WPPF is low at the current stage and hence, no provision has been made for the same. However as long as the issue is not resolved, HSBC Bangladesh is maintaining sufficient retained earnings till date so as to meet any future liability in this regard which is estimated as BDT2,575,128,253 as of 31 December 2022.

33.9 Preservation of client's audit reports in loan file and verification through Document Verification System (DVS)

Pursuant to BRPD circular letter no. 04 dated 04 January 2021, Banks are required to preserve the updated statutory audit report of the clients in loan file during approval/renewal of facilities and as per BRPD circular letter no. 35 dated 06 July 2021, these statutory audit reports need to be verified through the documents verification system (DVS) developed by Institute of Chartered Accountants of Bangladesh (ICAB). During 01 January 2022 to 31 December 2022, out of 513 corporate clients, 97.7% of the clients' updated statutory audit reports have been preserved in HSBC's Credit Approvals and Risk Management (CARM) system with loan accounts and 100% of those clients' statutory audit reports have been verified in DVS system.

33.10 Non-Banking Asset (NBA)

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

As of 31 December 2022, HSBC does not hold, sale and convert any NBA into fixed asset.

33.11 Number of employees

The number of employees engaged for the whole year or part thereof who received a total yearly remuneration of Tk 36,000 or above were 824 (2021: 811)

33.12 The net amount of foreign currency exposure as at 31 December 2022 was BDT 1,235,212,018 (31 December 2021: BDT3,448,396,395)

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

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


Md Mahub ur Rahman
Chief Executive Officer, Bangladesh


Jignesh Chetan Ruparel
Chief Financial Officer, Bangladesh

Dhaka, 12 April 2023

Statement of Liquidity (Assets and Liabilities Maturity Analysis) As at 31 December 2022							Annexure - A
Particulars	Maturity within 1 month		Maturity within 1 to 3 months		Maturity within 3 to 12 months		Total
	BDT		BDT		BDT		
Assets							
Cash in hand*	25,367,108,877		-		-		25,367,108,877
Balance with other banks and financial institutions (note 6.2)	20,958,028,332		-		-		20,958,028,332
Money at call on short notice	12,905,862,500		-		-		12,905,862,500
Investment (note 8.1)	23,167,854,355	53,394,281,935	10,270,963,841	27,535,579,094	6,000,000	86,830,930,131	110,768,544,326
Loans and advances (note 9.1)	45,171,000,759	70,995,021,892	68,349,537,812	13,665,300,056	225,809,969,203		168,940,829,912
Fixed assets	115,000	17,930	8,100,770	688,000,222	76,579,392	774,813,314	775,000,000
Other assets	6,101,287,654	2,333,041,503	306,049,844	301,132,455	-	9,041,511,447	9,041,511,447
Non-banking assets	-	-	-	-	-	-	-
Total assets	133,671,287,468	126,712,363,050	78,934,542,067	28,524,711,771	17,880,165,570	385,723,069,926	
Liabilities							
Borrowings from other banks and financial institutions (note 12.4)	3,364,982,110	11,587,085,588	14,570,923,641	80,963,121,573	-	110,486,028,912	110,486,028,912
Deposits and other accounts (note 13.1)	39,910,517,531	26,085,715,199	80,349,397,670	60,922,725,274	-	207,266,355,674	207,266,355,674
Other liabilities (including capital/shareholders' equity)	2,613,491,912	719,974,380	5,781,970,853	55,042,983,929	3,811,264,265	1,396,786,667	1,396,786,667
Total liabilities	45,888,901,553	38,391,775,167	100,702,296,164	196,928,830,776	3,811,264,265	385,723,069,926	
Net liquidity difference	87,782,385,915	88,320,587,883	21,767,756,097	116,404,115,095	14,068,901,305	-	

* 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 2022							Annexure - B
Bank Name	Currency name	2022		2021		Local currency	
		Foreign currency	Rate	Foreign currency	Rate		
HSBC Hong Kong	HKD	1,878,041	13.2435	24,871,821	1,452,994	10,9419	15,998,576
HSBC Hong Kong Global ATM settlement account	HKD	368,512	13.2435	4,880,384	1,878,396	10,9419	20,553,311
HSBC Hong Kong Settlement account with HSBC Hong Kong	CNY	43,640,867	14.8089	646,273,163	814,158	13.3890	10,900,792
HSBC Hong Kong	USD	568,607	103.2469	58,706,895	9,515,540	85.3417	812,072,350
HSBC Japan	JPY	63,865,257	0.7727	49,346,229	64,040,666	0.7411	47,460,721
HSBC Singapore	SGD	81,557	76.5870	6,246,228	18,812	63.0712	1,186,484
HSBC India	USD	6,457,115	103.2469	666,677,099	3,805,542	85.3417	324,771,391
Credit Suisse AG Switzerland	CHF	3,746,288	111.7996	418,833,352	2,697,466	93.1983	251,399,257
HSBC Bank PLC UK	GBP	1,150,847	124.4538	143,227,278	1,707,551	115.0833	196,510,627
HSBC Bank USA	USD	167,192,382	103.2469	17,262,095,105	20,850,386	85.3417	1,779,407,361
SCB Pakistan	USD	3,731,805	103.2469	385,297,298	3,731,805	85.3417	318,478,584
HSBC Sri Lanka	USD	3,699	103.2469	381,903	198,563	85.3417	16,945,688
HSBC Bank Australia TT account	AUD	46,672	69.4852	3,242,999	25,898	61.9922	1,605,462
HSBC Bank Australia DD account	AUD	447	69.4852	31,033	447	61.9922	27,687
HSBC Bank Canada	CAD	69,038	75.9811	5,245,570	49,899	66.7619	3,331,379
HSBC France	EUR	9,111,416	110.0096	1,002,343,026	14,450,673	96.5897	1,396,786,667
Danske Bank Denmark	DKK	2,013	14.7932	29,779	1,964	12.9888	25,511
HSBC India	EUR	693,503	110.0096	76,291,961	693,503	96.5897	66,985,265
HSBC Dubai	AED	1,544	28.1128	43,415	8,612	23.2342	200,097
Total				20,754,064,539			5,263,547,210

Financial Highlights (Onshore) As at 31 December 2022					Annexure - C
					(Figures in BDT)
SI No	Particulars	Currency/percentage	2022	2021	
1	Fund deposited with Bangladesh Bank as capital	BDT	3,811,264,265	3,167,775,997	
2	Total assets	BDT	274,006,735,595	208,467,964,696	
3	Total deposits	BDT	197,276,684,605	151,349,824,567	
4	Total loans and advances	BDT	112,840,875,405	93,101,382,111	
5	Total contingent liabilities	BDT	249,635,820,291	199,091,110,838	
6	Advances/deposits ratio	%	55.45%	59.85%	
7	Classified advances as a percentage of total advances	%	2.02%	1.71%	
8	Profit after tax and provisions	BDT	4,910,004,267	4,336,864,725	
9	Amount of classified loans	BDT	2,283,394,856	1,588,115,815	
10	Amount of provision against classified loans	BDT	1,081,851,006	660,283,335	
11	Interest expenses	BDT	1,663,749,800	1,863,325,747	
12	Interest bearing assets	BDT	239,812,638,281	167,950,194,769	
13	Non interest bearing assets	BDT	34,193,896,313	20,517,768,927	
14	Income from investment	BDT	2,125,654,186	2,000,908,677	
15	Return on Investment (ROI)*	%	2.78%	3.57%	
16	Return on Assets (ROA)*	%	1.95%	2.12%	
17	Return on Equity (ROE)*	%	11.81%	11.67%	

Financial Highlights (Offshore) As at 31 December 2022					(Figures in BDT)
SI No	Particulars	Currency**/percentage	2022	2021	
1	Total assets	BDT	128,779,722,559	164,742,456,789	
2	Total deposits	BDT	9,991,671,070	4,933,002,659	
3	Total loans and advances	BDT	112,769,093,798	146,776,264,437	
4	Total contingent liabilities	BDT	13,024,339,685	11,851,731,154	
5	Classified Advance	BDT	3,703,684,168	2,860,245,954	
6	Classified advances as a percentage of total advances	%	3.28%	1.95%	
7	Profit before tax	BDT	3,042,635,727	478,725,971	
8	Profit after tax and provisions	BDT	969,252,568	563,195,426	
9	Interest expenses	BDT	1,469,976,544	321,491,640	
10	Interest bearing assets	BDT	128,765,768,357	164,704,201,604	
11	Non interest bearing assets	BDT	13,954,202	38,255,184	
12	Return on Assets (ROA)*	%	1.49%	0.37%	

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

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

Key Financial Highlights (Solo)					[Figures in BDT]
Sl No	Particulars	Onshore	Offshore	Solo	
1	Total assets*	274,006,735,595	128,779,722,559	385,723,069,926	
2	Total deposits	197,276,684,605	9,991,671,070	207,268,355,675	
3	Total loans and advances	112,840,875,405	112,769,093,798	225,609,969,203	
4	Total contingent liabilities	249,635,820,291	13,024,339,685	262,660,159,976	
5	Net interest income	4,805,105,715	3,931,897,150	8,737,002,865	
6	Non interest income	9,460,572,194	709,234,560	10,169,806,754	
7	Total operating income	14,265,677,909	4,641,131,710	18,906,809,619	
8	Profit before tax and provisions	9,352,301,117	3,042,635,727	12,394,936,844	
9	Profit after tax and provisions	4,910,004,267	969,252,569	5,879,256,836	
10	Total capital including retained earnings	-	-	46,121,695,671	
11	Surplus capital (above 12.5%)	-	-	18,439,959,671	
12	Capital adequacy ratio (%)	-	-	20.63%	
13	Classified advances as a percentage of total advances (%)	2.02%	3.28%	2.65%	
14	Return on Investment (ROI)*	-	-	2.78%	
15	Return on Assets (ROA)*	-	-	1.58%	
16	Return on Equity (ROE)*	-	-	12.80%	



FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

Bangladesh Branches

Annexure - F Disclosures on risk based capital under Pillar - III of Basel III for the year ended 31 December 2022

1 Disclosure policy

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

The major highlights of the Bangladesh Bank regulations are:

- To maintain Capital Adequacy Ratio (CAR) at a minimum of 12.50% (including capital conservation buffer @2.50%) of Risk Weighted Assets (RWA);
- To adopt the standardised approach for credit risk for implementing Basel III, using national discretion for:
 - adopting the credit rating agencies as External Credit Assessment Institutions (ECAI) for claims on sovereigns and banks;
 - adopting simple/comprehensive approach for Credit Risk Mitigation (CRM).
 - all unretained 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) of 2.50% of the total RWA has to be maintained from 2020 and onwards.

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

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

Quantitative disclosures:	2022 BDT	2021 BDT
The details of capital structure are provided as under:		
Common Equity Tier I		
Fund deposited with Bangladesh Bank	3,811,264,265	3,167,775,997
Retained earnings	43,359,574,951	40,201,601,175
Actuarial gain/(loss)	(445,497,530)	(530,468,930)
Less: Regulatory adjustment for intangible assets as per the Bangladesh Bank guideline	(5,061,208)	(4,449,291)
Less: Regulatory adjustment for deferred tax assets as per the Bangladesh Bank guideline	(2,191,649,485)	(1,581,480,055)
Less: Regulatory adjustment due to WPPF	(2,575,128,253)	(2,295,163,640)
	41,953,502,740	38,957,815,257
Additional Tier I	-	-
	-	-
Total Tier I	41,953,502,740	38,957,815,257
Tier II		
General provision	4,168,193,231	3,924,411,155
	4,168,193,231	3,924,411,155
Total capital	46,121,695,971	42,882,226,412

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 20.83% (2021: 20.17%) as against the minimum regulatory requirement of 12.50% including capital conservation buffer. Tier I capital adequacy ratio is 18.94% (2021: 18.32%) against the minimum regulatory requirement of 6%. The Bank’s policy is to manage and maintain its capital with the objective of maintaining a strong capital ratio. The Bank maintains capital levels that are sufficient to absorb all material risks. The Bank also ensures that the capital levels comply with all regulatory requirements, satisfy external rating agencies and other stakeholders including depositors. The whole objective of the capital management process in the Bank is to ensure that the Bank remains adequately capitalised at all times.

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

Quantitative disclosures:	2022 BDT	2021 BDT
Position of various risk weighted assets are presented below:		
	Risk Weighted Assets	Risk Weighted Assets
On balance sheet items	151,858,965,579	151,288,126,145
Off balance sheet items	43,297,757,580	35,012,143,790
Total credit risk	195,156,723,159	186,300,269,935
Market risk	1,948,267,406	4,178,433,137
Operational risk	24,348,899,886	22,174,604,796
Total risk weighted assets	221,453,890,451	212,653,307,867

Detail of capital adequacy

	2022 BDT	2021 BDT
Minimum Capital Requirement (MCR-10%)		
Capital requirement for credit risk	19,515,672,316	18,630,026,993
Capital requirement for market risk	194,826,741	417,843,314
Capital requirement for operational risk	2,434,889,989	2,217,460,480
Total Minimum Capital required	22,145,389,045	21,265,330,787
Surplus Maintenance	23,976,306,926	21,616,895,625
Minimum Capital Requirement plus Capital Conservation Buffer (12.5%)		
Capital requirement for credit risk	24,394,590,395	23,287,533,742
Capital requirement for market risk	243,533,426	522,304,142
Capital requirement for operational risk	3,043,612,486	2,771,825,599
Total Minimum Capital required plus Capital Conservation Buffer	27,681,736,306	26,581,663,483
Surplus Maintenance	18,439,959,665	16,300,562,928
Common Equity Tier I capital	41,953,502,740	38,957,815,257
Total Tier I capital	41,953,502,740	38,957,815,257
Total Tier II capital	4,168,193,231	3,924,411,155
Total regulatory capital	46,121,695,971	42,882,226,412
% of Capital adequacy required		
Common Equity Tier I	7.000%	7.000%
Tier I	6.000%	6.000%
Minimum Capital to Risk Weighted Asset Ratio (CRAR)/MCR	10.000%	10.000%
Minimum CRAR + Capital Conservation Buffer	12.500%	12.500%
% of Capital adequacy maintained		
Common Equity Tier I	18.94%	18.32%
Tier I	18.94%	18.32%
Tier II	1.88%	1.85%
Capital Conservation Buffer	10.83%	10.17%
Total CRAR	20.83%	20.17%

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.

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

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

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

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

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

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

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

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

Specific provision

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

Throughout the year the Bank reviews loans and advances to assess whether objective evidence has arisen of impairment of a loan or portfolio that warrants a change in the classification of loans and advances which may result in a change in the provision required in accordance with BRPD Circular Letter No.03 dated 31 January 2021, BRPD Circular Letter No.05 dated 24 March 2021, BRPD Circular Letter No.13 dated 26 June 2021, BRPD Circular Letter No.19 dated 26 August 2021, BRPD Circular Letter No.45 dated 04 October 2021, BRPD Circular Letter No.50 dated 14 December 2021, BRPD Circular Letter No. 52 dated 29 December 2021, BRPD (P-1)/661/13/2021-12262 dated 29 December 2021, BRPD Circular Letter No. 53 dated 30 December 2021, BRPD circular No. 56 (10 December 2020), BRPD circular No. 52 (20 October 2020), BRPD circular No. 17 (28 September 2020), BRPD Circular No. 16 (21 July 2020), BRPD circular No. 13 (15 June 2020), BRPD circular No. 04 (19 March 2020), BRPD circular No. 07 (19 March 2020), BRPD circular No. 24 (17 November 2019), BRPD circular No. 06 (19 May 2019), BRPD circular No. 04 (16 May 2019), BRPD circular No. 03 (21 April 2019), BRPD circular No. 01 (20 February 2018),

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

Specific provision on loans and advances

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

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

Quantitative disclosures:	2022 BDT	2021 BDT
Gross Credit Risk Exposure		
Claims on sovereigns and central banks	29,593,894,998	26,196,771,585
Claims on banks	44,230,402,598	32,624,118,325
Investments	36,544,284,052	40,359,775,554
Claims on Public Sector Entities (other than Government) in Bangladesh	8,651,840,575	7,053,494,880
Claims on corporate	182,028,631,866	194,547,949,720
Claims on SME	4,468,170,810	4,012,957,914
Claims Under Credit Risk Mitigation	10,681,527,969	13,606,100,838
Claims on consumer	1,469,566,253	1,028,917,888
Claims fully secured by residential property	754,461,673	950,422,258
Past due Claims	2,138,644,580	2,511,530,187
Fixed assets	774,813,312	692,225,966
All other assets	9,851,445,778	4,614,652,657
Total on-balance sheet items	331,187,684,464	328,198,917,772
Off-balance sheet items (after considering the credit conversion factor)	60,430,767,287	44,562,180,569
Total	391,618,451,751	372,761,098,341

Geographical distribution of credit exposures

	2022 Dhaka	2022 Chattogram	Total BDT
Claims on sovereigns and central banks	27,958,324,930	1,635,570,068	29,593,894,998
Claims on banks	44,230,402,598	-	44,230,402,598
Investments	36,544,196,052	88,000	36,544,284,052
Claims on Public Sector Entities (other than Government) in Bangladesh	8,651,840,575	-	8,651,840,575
Claims on corporate	177,813,712,590	4,214,919,276	182,028,631,866
Claims on SME	4,468,170,810	-	4,468,170,810
Claims Under Credit Risk Mitigation	10,559,057,290	122,470,679	10,681,527,969
Claims on consumer	1,236,963,342	232,602,911	1,469,566,253
Claims fully secured by residential property	612,350,940	142,110,733	754,461,673
Past due Claims	2,055,350,803	83,293,777	2,138,644,580
Fixed assets	722,955,102	51,858,209	774,813,312
All other assets	9,813,551,747	37,894,032	9,851,445,779
Total on-balance sheet items	324,666,876,779	6,520,807,685	331,187,684,464
Off-balance sheet items (after considering the credit conversion factor)	55,507,346,695	4,923,420,592	60,430,767,287
Total	380,174,223,474	11,444,228,277	391,618,451,751

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

2022	SME	POWER AND ENERGY	NON GOVERNMENT ORGANIZATION	CHEMICAL & PHARMACEUTICALS	NON-METALLIC MINERAL PRODUCTS	AGRICULTURE & AGRO PROCESSING
Claims on sovereigns and central banks	-	-	-	-	-	-
Claims on banks	-	-	-	-	-	-
Investments	-	-	-	-	-	-
Claims on Public Sector Entities (other than Government) in Bangladesh	-	-	-	-	-	-
Claims on corporate	15,442,021,570	4,390,042,447	13,104,597,734	11,766,149,258	26,755,142,092	-
Claims on SME	4,468,170,810	-	-	-	-	-
Claims Under Credit Risk Mitigation	1,237,724,167	-	1,819,486,128	-	-	557,111,574
Claims on consumer	-	-	-	-	-	-
Claims fully secured by residential property	-	-	-	-	-	-
Past due Claims	-	-	-	-	573,126,030	550,107,830
Fixed assets	-	-	-	-	-	-
All other assets	-	-	-	-	-	-
Total Assets	4,468,170,810	16,679,745,736	4,390,042,447	14,924,083,862	12,339,275,287	27,862,361,496
Off-balance sheet items	-	-	-	-	-	-

2022	TEXTILE	TRADE	STEEL AND META	Banks & NBFI	READYMADE GARMENTS	Others	Total
Claims on sovereigns and central banks	-	-	-	-	-	29,593,894,998	29,593,894,998
Claims on banks	-	-	-	44,230,402,598	-	-	44,230,402,598
Investments	-	-	-	-	-	36,544,284,052	36,544,284,052
Claims on Public Sector Entities (other than Government) in Bangladesh	-	-	-	-	-	8,651,840,575	8,651,840,575
Claims on corporate	34,779,669,521	655,882,407	9,049,585,410	-	48,761,433,436	17,324,107,991	182,028,631,866
Claims on SME	-	-	-	-	-	-	4,468,170,810
Claims Under Credit Risk Mitigation	2,564,789,708	-	-	-	1,565,557,174	2,936,859,219	10,681,527,969
Claims on consumer	-	-	-	-	1,469,566,253	-	1,469,566,253
Claims fully secured by residential property	-	-	-	-	-	754,461,673	754,461,673
Past due Claims	29,836,515	108,947,255	-	-	593,233,663	283,393,286	2,138,644,580
Fixed assets	-	-	-	-	-	774,813,312	774,813,312
All other assets	-	-	-	-	-	9,851,445,778	9,851,445,778
Total Assets	37,374,295,745	1,420,712,069	9,049,585,410	44,230,402,598	50,920,224,272	108,184,067,139	331,187,684,464
Off-balance sheet items	-	-	-	1,484,665,789	-	58,946,081,498	60,430,767,287



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Bangladesh Branches

Industry distribution of credit exposures

2021	SME	POWER AND ENERGY	NON GOVERNMENT ORGANIZATION	CHEMICAL & PHARMACEUTICALS	NON-METALLIC MINERAL PRODUCTS	AGRICULTURE & AGRO PROCESSING
Claims on sovereigns and central banks	-	-	-	-	-	-
Claims on banks	-	-	-	-	-	-
Investments	-	-	-	-	-	-
Claims on Public Sector Entities (other than Government) in Bangladesh	-	-	-	-	-	-
Claims on corporate	12,530,227,723	1,791,370,528	12,441,366,578	20,993,074,954	33,942,703,749	-
Claims on SME	4,012,957,914	-	-	-	-	-
Claims Under Credit Risk Mitigation	-	1,850,938,550	685,626,750	1,453,915,004	-	233,829,005
Claims on consumer	-	-	-	-	-	-
Claims fully secured by residential property	-	-	-	-	-	-
Past due Claims	-	-	-	-	532,509,587	717,059,766
Fixed assets	-	-	-	-	-	-
All other assets	-	-	-	-	-	-
Total Assets	4,012,957,914	14,381,166,273	2,476,997,278	13,896,281,582	21,525,584,541	34,883,592,520
Off-balance sheet items	-	-	-	-	-	-

2021	TEXTILE	TRADE	STEEL AND META	Banks & NBFI	READYMADE GARMENTS	Others	Total
Claims on sovereigns and central banks	-	-	-	-	-	26,196,771,585	26,196,771,585
Claims on banks	-	-	-	32,624,118,325	-	-	32,624,118,325
Investments	-	-	-	-	-	40,359,775,554	40,359,775,554
Claims on Public Sector Entities (other than Government) in Bangladesh	-	-	-	-	-	-	-
Claims on corporate	33,800,260,449	800,802,823	10,536,494,692	-	48,738,026,658	19,173,831,567	194,547,949,720
Claims on SME	-	-	-	-	-	-	4,012,957,914
Claims Under Credit Risk Mitigation	3,338,316,312	19,692,760	-	-	2,947,250,704	3,076,531,753	13,606,100,838
Claims on consumer	-	-	-	-	-	1,028,917,888	1,028,917,888
Claims fully secured by residential property	-	-	-	-	-	950,422,258	950,422,258
Past due Claims	-	86,920,691	-	-	-	1,175,040,143	2,511,330,187
Fixed assets	-	-	-	-	-	692,225,966	692,225,966
All other assets	-	-	-	-	-	4,614,652,657	4,614,652,657
Total Assets	37,138,576,760	707,216,274	10,536,494,692	32,624,118,325	51,685,277,362	104,321,664,251	328,198,917,772
Off-balance sheet items	-	-	-	1,383,982,248	-	43,178,198,321	44,562,180,569

Maturity breakdown of credit exposures

2022	Within 1 month	Within 1 to 3 months	Within 3 to 12 months	Within 1 to 5 years	Over 5 years	Total BDT
Claims on sovereigns and central banks	25,367,108,876	-	-	-	4,226,786,122	29,593,894,998
Claims on banks	38,563,782,748	3,443,685,020	2,222,934,830	-	-	44,230,402,598
Investments	8,458,066,526	17,815,363,685	10,270,853,841	-	-	36,544,284,052
Claims on Public Sector Entities (other than Government) in Bangladesh	-	-	-	188,981,830	8,462,858,745	8,651,840,575
Claims on corporate	66,520,134,924	51,873,956,785	38,285,799,476	22,017,272,861	3,331,467,820	182,028,631,866
Claims on SME	1,366,627,556	2,866,185,893	235,357,361	-	-	4,468,170,810
Claims Under Credit Risk Mitigation	3,903,433,622	3,043,988,820	2,246,629,191	1,291,984,198	195,492,139	10,681,527,969
Claims on consumer	1,902,044	4,329,638	32,003,819	1,429,385,061	1,945,691	1,469,566,253
Claims fully secured by residential property	12,836,566	-	9,246,265	100,334,355	632,044,488	754,461,673
Past due Claims	2,138,644,580	-	-	-	-	2,138,644,580
Fixed assets	115,000	17,930	8,100,700	688,000,222	78,579,390	774,813,312
All other assets	6,101,287,645	2,376,355,113	306,049,844	306,908,767	760,844,410	9,851,445,778
Total on-balance sheet items	152,433,940,085	81,423,882,883	53,616,975,397	26,022,867,292	17,690,018,805	331,671,684,464
Off-balance sheet items	8,882,786,644	20,681,118,738	13,547,155,900	17,519,706,006	-	60,430,767,287
Total	161,116,726,730	102,105,001,621	67,164,131,297	43,542,573,298	17,690,018,805	391,618,451,751

2021	Within 1 month	Within 1 to 3 months	Within 3 to 12 months	Within 1 to 5 years	Over 5 years	Total BDT
Claims on sovereigns and central banks	22,739,484,234	-	-	-	3,457,287,351	26,196,771,585
Claims on banks	22,128,215,707	5,004,093,166	5,095,809,452	-	-	32,624,118,325
Investments	4,953,471,391	4,471,093,406	27,927,399,785	3,007,810,972	-	40,359,775,554
Claims on Public Sector Entities (other than Government) in Bangladesh	-	3,168,160	3,800,846	208,107,321	6,838,618,553	7,053,494,880
Claims on corporate	32,637,704,522	59,802,004,539	75,306,258,774	24,938,736,785	1,863,245,100	194,547,949,720
Claims on SME	3,280,330,733	72,036,000	660,591,181	-	-	4,012,957,914
Claims Under Credit Risk Mitigation	2,821,775,916	2,969,524,110	3,582,068,902	3,280,171,790	952,560,120	13,606,100,838
Claims on consumer	4,040,579	11,725,470	254,153,481	738,703,180	20,295,178	1,028,917,888
Claims fully secured by residential property	12,480,765	2,268,411	7,500,294	144,849,029	783,323,759	950,422,258
Past due Claims	2,511,530,187	-	-	-	-	2,511,530,187
Fixed assets	-	479,471	51,166,820	626,452,686	14,137,189	692,225,966
All other assets	390,165,582	222,456,922	638,399,361	2,462,175,753	901,455,039	4,614,652,657
Total on-balance sheet items	91,479,199,616	72,954,849,655	113,526,938,696	35,407,007,516	14,830,922,289	328,198,917,772
Off-balance sheet items	8,837,648,427	13,480,251,177	10,331,891,278	11,912,389,687	-	44,562,180,569
Total	100,316,848,043	86,435,100,832	123,858,829,974	47,319,397,203	14,830,922,289	372,761,098,341

Gross Non Performing Assets (NPAs)	2022 BDT	2021 BDT
Non Performing Assets (NPAs) to outstanding loans and advances	5,987,079,025	4,448,361,769

Movement of NPAs	4,448,361,769 (33,250,684)	1,443,438,302 (156,203,521)
Opening Balance		
Written off during the period		(84,103,332)
Recoveries during the period		1,965,789
Addition during the period	1,656,071,272	3,179,092,777
Closing Balance	5,987,079,025	4,448,361,769

Movement of specific provision for NPAs	2,693,566,266 (6,486,437)	580,647,987 (19,238,271)
Opening Balance		
Written off (net off recovery) during the period		(36,398,062)
Recoveries during the period		(24,482,223)
Provision made during the period	1,643,996,534	2,156,638,773
Closing Balance	4,307,651,175	2,693,566,266

6 Equities: Disclosures for banking book positions

The Bank does not hold trading position in equities.

7 Interest rate risk in the banking books

Discussed in the next section under Market risk.

8 Market risk

Quantitative disclosures:

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

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

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

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

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

Interest rate exposures

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

Interest rate exposures in the banking book

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

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

Foreign exchange risk

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

Equity position risk

The Bank does not hold a trading position in equities.

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

The capital requirement for: Quantitative disclosures:	2022 BDT	2021 BDT
Interest rate risk	71,305,539	71,151,824
Equity position risk	-	-
Foreign exchange risk	123,521,202	346,691,489
Commodity risk	-	-
	194,826,741	417,843,313

9 Operational risk

Quantitative disclosures:

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

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

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

Third LOD is Internal Audit. Internal Audit provides independent assurance to management and the non-executive Risk and Audit Committees that our risk management, governance and internal control processes are designed and operating effectively.

- 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 Bank 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 Bank 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:	2022 BDT	2021 BDT
Capital charge for operational risk	2,434,889,989	2,217,460,480

10 Liquidity Ratio

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 changing business modes, markets and regulatory guidelines. The liquidity risk management framework requires:

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

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

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

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

Quantitative disclosures:	2022 BDT	2021 BDT
Liquidity coverage ratio (%)	196.34%	126.53%
Net Stable Funding Ratio (%)	140.84%	149.59%
Stock of High quality liquid assets	92,378,615,682	68,270,121,192
Total net cash outflows over the next 30 calendar days	47,051,225,269	53,956,580,163
Available amount of stable funding	297,611,200,507	301,112,518,017
Required amount of stable funding	211,317,207,942	201,297,082,484

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 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:	2022 BDT	2021 BDT
Leverage ratio	9.24%	9.50%
On balance sheet exposure	376,686,893,401	349,903,462,959
Off balance sheet exposure	77,485,782,157	60,380,208,257
Total exposure	454,172,675,558	410,283,671,216

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 'We value difference, We succeed together, We take responsibility and We get it done'. 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 latter 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.