HSBC, Bangladesh

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

HSBC

The Hongkong and Shanghai Banking Corporation Limited, Bangladesh Branches

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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 unrated corporate exposures are risk weighted by assigning a risk weighting of 125%.
- To adopt the standardised approach for market risk and basic indicator approach for operational risk.
- Capital adequacy returns must be submitted to Bangladesh Bank on a quarterly basis.

2 Scope of application

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

3 Capital structure

Qualitative disclosures:

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

- The Bank has to maintain at least 4.5% of total Risk Weighted Assets (RWA) as Common Equity Tier I capital.
- Tier I capital will be at least 6% of the total RWA.
- Minimum Capital to Risk-weighted Asset Ratio (CRAR) will be 10% of the total RWA.
- Additional Tier I capital can be maximum up to 1.5% of the total RWA or 33.33% of CET 1, whichever is higher.
- Tier II capital can be maximum up to 4% of the total RWA or 88.89% of CET1, whichever is higher.
- In addition to minimum CRAR, Capital Conservation Buffer (CCB) 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 1 capital is also called 'Core Capital' of the Bank. According to BRPD letter ref no. BRPD (BFIS)661/14B(P)/2015-18014 dated 24 December 2015, 5% of deferred tax recognised on specific provision shall be allowable as CET 1 capital whilst all other deferred tax assets created on other items shall be deducted from the retained earnings when calculating the capital adequacy ratio.

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

Quantitative disclosures:

The details of capital structure are provided as under:	2022 BDT	2021 BDT
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% 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 frame work by which the Bank's annual budget projections and the capital required to achieve the business objectives are linked in a cohesive way. Capital requirements are assessed for credit, market and operational risks. The Bank's capital adequacy ratio is periodically assessed and reviewed by the ALCO and reported to head office. The composition of capital in terms of Tier I and II are also analysed to ensure capital stability and to reduce volatility in the capital structure. The Bank has a profit remittance policy to ensure that the Bank has enough capital to comply with the regulatory requirement. The Bank's capital plan also ensures that adequate levels of capital are held considering the planned organic growth of the business.

Quantitative disclosures:

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

Specific provision on loans and advances

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

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

Quantitative disclosures:

Gross Credit Risk Exposure	2022 BDT	2021 BDT
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	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	774,813,311
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	**308,174,223,474**	**11,444,228,277**	**391,618,451,751**

2021	Dhaka	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**

Industry distribution of credit exposures

2022	SME	POWER AND ENERGY	NON GOVERNMENT ORGANIZATION	CHEMICAL & PHARMACEUTICALS	NON-METALLIC MINERAL PRODUCTS	AGRICULTURE & AGRO PROCESSING	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	-	15,442,021,570	4,390,042,447	13,104,597,734	11,766,149,258	26,755,142,092	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	-	-	-	-	-	-	-	-	-	-	-	4,468,170,810
Claims Under Credit Risk Mitigation	-	1,237,724,167	-	1,819,486,128		557,111,574	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	-	-	-	-	573,126,030	550,107,830	29,836,515	108,947,255			593,233,663	283,393,288	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	**4,468,170,810**	**16,679,745,736**	**4,390,042,447**	**14,924,083,862**	**12,339,275,287**	**27,862,361,496**	**37,374,295,745**	**1,420,721,069**	**9,049,585,410**	**44,230,402,598**	**50,920,224,272**	**108,184,667,139**	**331,187,684,464**
Off-balance sheet items	-	-	-	-	-	-	-	-	-	1,484,685,789	-	58,946,081,498	60,430,767,287

2021	SME	POWER AND ENERGY	NON GOVERNMENT ORGANIZATION	CHEMICAL & PHARMACEUTICALS	NON-METALLIC MINERAL PRODUCTS	AGRICULTURE & AGRO PROCESSING	TEXTILE	TRADE	STEEL AND META	Banks & NBFI	READYMADE GARMENTS	Others	Total
Claims on sovereigns and central banks	-	-	-	-	-	-	-	-	-	-	-	26,196,771,585	26,196,771,585
Claims on banks	-	-	-	-	-	-	-	-	-	32,624,118,325	-	-	32,624,118,325
Investments	-	-	-	-	-	-	-	-	-	-	-	40,359,775,554	40,359,775,554
Claims on Public Sector Entities (other than Government) in Bangladesh	-	-	-	-	-	-	-	-	-	-	-	7,053,494,880	7,053,494,880
Claims on corporate	-	12,530,227,723	1,791,370,528	12,441,366,578	20,993,074,954	33,942,703,749	33,800,260,449	600,602,823	10,536,484,692	-	48,738,026,658	19,173,831,567	194,547,949,720
Claims on SME	4,012,957,914	-	-	-	-	-	-	-	-	-	-	-	4,012,957,914
Claims Under Credit Risk Mitigation	-	1,850,938,550	685,626,750	1,453,915,004	-	233,829,005	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	-	-	-	-	532,509,587	717,059,766	-	86,920,691	-	-	-	1,175,040,143	2,511,530,187
Fixed assets	-	-	-	-	-	-	-	-	-	-	-	692,225,966	692,225,966
All other assets	-	-	-	-	-	-	-	-	-	-	-	4,614,652,657	4,614,652,657
Total Assets	**4,012,957,914**	**14,381,166,273**	**2,476,997,278**	**13,895,281,582**	**21,525,584,541**	**34,893,592,520**	**37,138,576,760**	**707,216,274**	**10,536,484,692**	**32,624,118,325**	**51,685,277,362**	**104,321,664,251**	**328,198,917,772**
Off-balance sheet items	-	-	-	-	-	-	-	-	-	1,383,982,248	-	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	1,492,385,061	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	8,100,770	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	152,433,940,086	81,423,882,883	53,616,975,397	26,022,867,292	17,690,018,805	331,187,684,464
Off-balance sheet items	8,682,786,644	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	5,400,093,166	5,095,809,452	-	-	32,624,118,325
Investments	4,953,471,391	4,471,093,406	27,927,399,785	3,007,810,972	-	40,359,775,554
Claims on Public Sector Entities (other than Government) in Bangladesh	-	3,168,160	3,600,846	208,107,321	6,838,618,553	7,053,494,880
Claims on corporate	32,637,704,522	59,802,004,539	75,306,258,774	24,938,736,785	1,863,245,100	194,547,949,720
Claims on SME	3,280,330,733	72,036,000	660,591,181	-	-	4,012,957,914
Claims Under Credit Risk Mitigation	2,821,775,916	2,969,524,110	3,582,068,902	3,280,171,790	952,560,120	13,606,100,838
Claims on consumer	4,040,579	11,725,470	254,153,481	738,703,180	20,295,178	1,028,917,888
Claims fully secured by residential property	12,480,765	2,268,411	7,500,294	144,849,029	783,323,759	950,422,258
Past due Claims	2,511,530,187	-	-	-	-	2,511,530,187
Fixed assets	-	479,471	51,156,620	626,452,686	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		
Opening Balance	4,448,361,769	1,443,438,302
Written off during the period	(33,250,684)	(156,203,521)
Recoveries during the period	(84,103,332)	(17,965,789)
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		
Opening Balance	2,693,566,266	580,647,987
Written off (net off recovery) during the period	6,486,437	(19,238,271)
Recoveries during the period	(36,398,062)	(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

Qualitative disclosures:

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

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

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

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

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

Interest rate exposures

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

Interest rate exposures in the banking book

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

Foreign exchange risk

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

Equity position risk

The Bank does not hold a trading position in equities.

Quantitative disclosures:

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

The capital requirement for:	**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

Qualitative disclosures:

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or external events, including legal risk. It is inherent in every business 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,

- 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 Banks's business, with reduced staffing levels.

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

Quantitative disclosures:	**2022** **BDT**	**2021** **BDT**
Capital charge for operational risk	2,434,889,989	2,217,460,480

10 Liquidity Ratio

Qualitative disclosures:

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

The objective of liquidity framework is to allow the Bank to withstand very severe stresses. It is designed to be adaptable to 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 new definition of Tier I capital applicable from 01 January 2015. The denominator, exposure measure, is calculated on the basis of the Basel III leverage ratio framework as adopted by the Bangladesh Bank. The exposure measure generally follows the accounting value, adjusted as follows:

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

Quantitative disclosures:

	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. All employees are required to have risk measures in their performance scorecards, which ensure that their individual remuneration has been appropriately assessed with regard to risk.
- Adherence to HSBC values is a pre-requisite for any employee to be considered for variable pay. HSBC values are key to the running of a sound, sustainable bank. Employees have a separate HSBC values rating which directly influences their overall performance rating considered by the Committee for their variable pay determinations.

- For our most senior employees, the greater part of their reward is deferred and thereby subject to clawback, which allows the awards to be reduced or cancelled if warranted.
- The Group also carries out regular reviews to assess instances of non-compliance with risk procedures and expected behaviour. Instances of non-compliance are escalated for consideration in variable pay decisions, including adjustments and clawback of unvested awards granted in prior years. For identified staff and Material Risk Takers (MRTs), the Committee has oversight of such decisions.
- All variable pay awards made to identified staff and material risk takers for the performance year in which they have been identified as MRTs are also subject to the Group Claw back Policy in accordance with the requirements in the Prudential Regulation Authority's Remuneration Code.

Quantitative disclosures:	**2022** BDT	**2020** BDT
Number of meetings held by the main body overseeing remuneration during the financial year	N/A	N/A
Remuneration paid to the main body overseeing remuneration during the financial year	N/A	N/A
Number of employees having received a variable remuneration award during the financial year	768	805
Guaranteed bonuses awarded during the financial year:		
Number of employee	838	811
Total amount of guaranteed bonuses	135,839,332	127,530,373
Sign-on awards made during the financial year:		
Number of employee	-	-
Total amount of sign-on awards	-	-
Severance payments made during the financial year:		
Number of employee	-	4
Total amount of severance payments	-	33,546,419
Total amount of outstanding deferred remuneration (in cash)	-	-
Total amount of deferred remuneration paid out in the financial year (Note 24)	13,404,684	4,156,205
Breakdown of amount of remuneration awards for the financial year:		
Fixed and variable	3,248,562,563	3,009,426,947
Variable pay (Note 24)		
Deferred	13,404,684	4,156,205
Non-deferred	438,136,448	415,845,614
	451,541,132	420,001,819