HSBC,Bangladesh

Disclosures on risk based capital
under Pillar - III of Basel III
for the year ended 31 December 2023

HSBC

The Hongkong and Shanghai Banking Corporation Limited, Bangladesh Branches
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for the year ended 31 December 2023

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:	2023 BDT	2022 BDT
Common Equity Tier I		
Fund deposited with Bangladesh Bank	4,044,976,737	3,811,264,265
Retained earnings	52,117,169,585	43,359,574,951
Actuarial gain/(loss)	(314,438,930)	(445,497,530)
Less: Regulatory adjustment for intangible assets as per the Bangladesh Bank guideline	(19,233,384)	(5,061,208)
Less: Regulatory adjustment for deferred tax assets as per the Bangladesh Bank guideline	(2,187,157,469)	(2,191,649,485)
Less: Regulatory adjustment due to WPPF	(3,050,873,018)	(2,575,128,253)
	50,590,443,522	**41,953,502,740**
Additional Tier I	-	-
	-	-
Total Tier I	**50,590,443,522**	**41,953,502,740**
Tier II		
General provision	3,662,829,753	4,168,193,231
	3,662,829,753	**4,168,193,231**
Total capital	**54,253,273,275**	**46,121,695,971**

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 25.62% (2022: 20.83%) as against the minimum regulatory requirement of 12.50% including capital conservation buffer. Tier I capital adequacy ratio is 23.89% (2022: 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:	2023 BDT Risk Weighted Assets	2022 BDT Risk Weighted Assets
On balance sheet items	141,609,132,402	151,858,965,579
Off balance sheet items	35,324,006,217	43,297,757,580
Total credit risk	176,933,138,619	195,156,723,159
Market risk	5,659,675,097	1,948,267,406
Operational risk	29,180,044,062	24,348,899,886
Total risk weighted assets	**211,772,857,778**	**221,453,890,451**

Detail of capital adequacy

	2023 BDT	2022 BDT
Minimum Capital Requirement (MCR-10%)		
Capital requirement for credit risk	17,693,313,862	19,515,672,316
Capital requirement for market risk	565,967,510	194,826,741
Capital requirement for operational risk	2,918,004,406	2,434,889,989
Total Minimum Capital required	**21,177,285,778**	**22,145,389,045**
Surplus Maintenance	**33,075,987,497**	**23,976,306,926**
Minimum Capital Requirement plus Capital Conservation Buffer (12.5%)		
Capital requirement for credit risk	22,116,642,327	24,394,590,395
Capital requirement for market risk	707,459,387	243,533,426
Capital requirement for operational risk	3,647,505,508	3,043,612,486
Total Minimum Capital required plus Capital Conservation Buffer	**26,471,607,222**	**27,681,736,306**
Surplus Maintenance	**27,781,666,053**	**18,439,959,665**
Common Equity Tier I capital	50,590,443,522	41,953,502,740
Total Tier I capital	50,590,443,522	41,953,502,740
Total Tier II capital	3,662,829,753	4,168,193,231
Total regulatory capital	**54,253,273,275**	**46,121,695,971**
% of Capital adequacy required		
Minimum Common Equity Tier I (CTE- I)	4.50%	4.50%
Minimum Tier I	6.00%	6.00%
Minimum CET- I+ Capital Conservation Buffer	7.00%	7.00%
Minimum Capital to Risk Weighted Asset Ratio (CRAR)/MCR	10.00%	10.00%
Minimum CRAR+ Capital Conservation Buffer	12.50%	12.50%
% of Capital adequacy maintained		
Common Equity Tier I	23,89%	18.94%
Tier I	23,89%	18.94%
Tier II	1.73%	1.88%
Capital Conservation Buffer	15.62%	10.83%
Total CRAR	25,62%	20.83%

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 Scenario based conditions; 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 and Compliance 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.

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.

Credit Risk Exposure	2023 BDT	2022 BDT
Claims on sovereigns and central banks	26,683,971,755	29,593,894,998
Claims on banks	21,264,613,088	44,230,402,598
Investments	30,426,555,265	36,544,284,052
Claims on Public Sector Entities (other than Government) in Bangladesh	9,619,482,825	8,651,840,575
Claims on corporate	176,839,593,607	182,028,631,866
Claims on SME	3,595,142,660	4,468,170,810
Claims Under Credit Risk Mitigation	10,540,855,689	10,681,527,969
Claims on consumer	1,635,089,159	1,469,566,253
Claims fully secured by residential property	608,624,698	754,461,673
Past due Claims	3,186,864,798	2,138,644,580
Fixed assets	850,890,905	9,851,445,778
All other assets	3,323,751,066	9,851,445,778
Total on-balance sheet items	**288,575,435,513**	**331,187,684,464**
Off-balance sheet items (after considering the credit conversion factor)	51,733,896,479	60,430,767,287
Total	**340,309,331,992**	**391,618,451,751**

Geographical distribution of credit exposures

2023	Dhaka	Chattogram	Total BDT
Claims on sovereigns and central banks	25,607,981,402	1,075,990,353	26,683,971,755
Claims on banks	21,264,613,088	-	21,264,613,088
Investments	30,426,420,265	135,000	30,426,555,265
Claims on Public Sector Entities (other than Government) in Bangladesh	9,619,482,825	-	9,619,482,825
Claims on corporate	174,302,173,165	2,537,420,442	176,839,593,607
Claims on SME	3,595,142,660	-	3,595,142,660
Claims Under Credit Risk Mitigation	10,419,896,863	120,958,825	10,540,855,689
Claims on consumer	1,398,619,018	236,470,141	1,635,089,159
Claims fully secured by residential property	499,056,639	109,568,059	608,624,698
Past due Claims	3,162,218,462	24,646,336	3,186,864,798
Fixed assets	812,465,260	38,425,645	850,890,905
All other assets	3,280,786,153	42,964,912	3,323,751,066
Total on-balance sheet items	**284,388,855,800**	**4,186,579,714**	**288,575,435,513**
Off-balance sheet items (after considering the credit conversion factor)	48,882,646,670	2,851,249,808	51,733,896,479
Total	**333,271,502,470**	**7,037,829,522**	**340,309,331,992**

2022	Dhaka	Chattogram	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	**380,174,223,474**	**11,444,228,277**	**391,618,451,751**

Industry distribution of credit exposures

2023	SME	POWER AND ENERGY	NON GOVERNMENT ORGANIZATION	CHEMICAL & PHARMACEUTICALS	NON-METALLIC MINERAL PRODUCTS	AGRICULTURE & AGRO PROCESSING	TEXTILE	TRADE	STEEL AND METAL	Banks & NBFI	READYMADE GARMENTS	Others	Total
Claims on sovereigns and central banks	-	-	-	-	-	-	-	-	-	-	-	26,683,971,755	26,683,971,755
Claims on banks	-	-	-	-	-	-	-	-	-	21,264,613,088	-	-	21,264,613,088
Investments	-	-	-	-	-	-	-	-	-	-	-	30,426,555,265	30,426,555,265
Claims on Public Sector Entities (other than Government) in Bangladesh	-	-	-	-	-	-	-	-	-	-	-	9,619,482,825	9,619,482,825
Claims on corporate	-	16,788,020,834	701,201,667	13,833,831,634	14,121,349,486	24,363,210,773	38,628,841,533	986,413,707	5,001,784,435		40,361,628,732	22,053,310,807	176,839,593,607
Claims on SME	3,595,142,660	-	-	-	-	-	-	-	-	-	-	-	3,595,142,660
Claims Under Credit Risk Mitigation	-	1,576,004,493	-	1,337,345,586		232,656,698	1,407,493,502	-			1,959,572,315	4,027,783,094	10,540,855,689
Claims on consumer	-	-	-	-	-	-	-	-	-	-	-	1,635,089,159	1,635,089,159
Claims fully secured by residential property	-	-	-	-	-	-	-	-	-	-	-	608,624,698	608,624,698
Past due Claims	-	359,785,465	-	-	-	-	10,673,512	-			2,188,547,062	627,858,760	3,186,864,798
Fixed assets	-	-	-	-	-	-	-	-	-	-	-	850,890,905	850,890,905
All other assets	-	-	-	-	-	-	-	-	-	-	-	3,323,751,066	3,323,751,066
Total Assets	**3,595,142,660**	**18,723,810,791**	**701,201,667**	**15,171,177,220**	**14,121,349,486**	**24,595,867,471**	**40,047,008,547**	**986,413,707**	**5,001,784,435**	**21,264,613,088**	**44,509,748,110**	**99,857,318,332**	**288,575,435,513**
Off-balance sheet items	-	-	-	-	-	-	-	-	-	1,410,478,462	-	50,323,418,017	51,733,896,479

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

Maturity breakdown of credit exposures

2023	**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	22,190,957,661	-	-	-	4,493,014,094	26,683,971,755
Claims on banks	17,145,008,445	4,119,604,644	-	-	-	21,264,613,088
Investments	998,944,352	4,446,348,700	24,981,262,213	-	-	30,426,555,265
Claims on Public Sector Entities (other than Government) in Bangladesh	-	-	-	-	9,619,482,825	9,619,482,825
Claims on corporate	36,477,604,858	100,154,030,741	11,588,817,416	22,691,505,732	5,927,634,860	176,839,593,607
Claims on SME	1,021,666,667	2,573,475,993	-	-	-	3,595,142,660
Claims Under Credit Risk Mitigation	1,390,043,444	5,677,696,317	82,968,241	3,390,147,686	-	10,540,855,689
Claims on consumer	18,012,782	16,415,906	31,938,091	1,568,722,379	-	1,635,089,159
Claims fully secured by residential property	17,666,817	119,020	2,163,498	96,183,265	492,492,098	608,624,698
Past due Claims	3,186,864,798	-	-	-	-	3,186,864,798
Fixed assets	115,000	-	2,124,690	748,147,501	100,503,714	850,890,905
All other assets	390,002,606	100,079,733	467,942,219	1,766,791,254	598,935,253	3,323,751,066
Total on-balance sheet items	82,836,887,429	117,087,771,054	37,157,216,368	30,261,497,817	21,232,062,845	288,575,435,514
Off-balance sheet items	9,759,504,218	12,619,694,083	12,686,364,319	16,668,333,859	-	51,733,896,479
Total	**92,596,391,647**	**129,707,465,137**	**49,843,580,687**	**46,929,831,676**	**21,232,062,845**	**340,309,331,992**

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**

Gross Non Performing Assets (NPAs)	2023 BDT	2022 BDT
Non Performing Assets (NPAs) to outstanding loans and advances	6,996,260,288	5,987,079,025
Movement of NPAs		
Opening Balance	5,987,079,025	4,448,361,769
Written off during the period	(1,364,822,226)	(33,250,684)
Recoveries during the period	(59,606,291)	(84,103,332)
Addition during the period	2,433,609,779	1,656,071,272
Closing Balance	**6,996,260,288**	**5,987,079,025**
Movement of specific provision for NPAs		
Opening Balance	4,307,651,175	2,693,566,266
Written off (net off recovery) during the period	(554,389,868)	6,486,437
Recoveries during the period	(402,247,322)	(36,398,062)
Provision made during the period	855,302,422	1,643,996,534
Closing Balance	**4,206,316,407**	**4,307,651,175**

6 Equities: Disclosures for banking book positions

The Bank has equity holdings of unquoted shares of BDT6,000,000 of Central Depository Bangladesh Limited. The Bank does not hold trading position in equities. (Refer to note- 8).

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 Markets and Securities Services (MSS) 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:	**2023** **BDT**	**2022** **BDT**
Interest rate risk	163,728,526	71,305,539
Equity position risk	-	-
Foreign exchange risk	402,238,984	123,521,202
Commodity risk	-	-
	565,967,510	**194,826,741**

9 Operational risk

Qualitative disclosures:

Operational Risk (also known as Non-financial risk) is the risk to achieving our strategy or objectives as a result of inadequate or failed internal processes, people and systems, or from external events. Sound operational risk management is central to achieving good outcomes for our customers. Operational risk is relevant to every aspect of our business and is broadly managed through the risk management framework ('RMF') of HSBC group. Operational risk/non-financial risk covers a wide spectrum of risk areas, such as technology and cyber security, transaction processing, data risk, third party risk, facilities availability, safety and security, business interruption and incident risk, financial crime and fraud, regulatory compliance, financial reporting and tax risk, legal risk, model risk and people risk.

Organization and Responsibilities: The RMF sets out our approach to governance and risk appetite and sets the principles for our management of operational risks and associated controls. Progress has been made over the years in enhancing the framework and tools for strengthening the control environment and we will continue to improve practices in the management of nonfinancial risk. Non-financial risk is organised as a specific risk discipline within Global Risk. The Operational and Resilience Risk sub-function helps the business grow safely by driving governance and management of operational risk through the delivery and embedding of effective frameworks and policies. HSBC follows a 3 Lines of Defence (LoD) model to define roles and responsibilities within HSBC and activity to strengthen the first and second lines of defence continued to be a key focus to effectively manage operational risk. The first line of defence owns the risk and is accountable for identifying, assessing, managing key existing and emerging risks. The second line of defence sets the policy and control standards to manage risks, and provides advice and guidance to support these policies. It also challenges the first line to ensure it is managing risk effectively. The third line of defence is Global Internal Audit, which provides independent assurance to the Board and management that our risk management approach and processes are designed and operating effectively. The effectiveness of first line of defence risk and control owners, and second line of defence risk stewards in managing our Non-Financial Risk processes and practices is reported through Risk Management Meetings (RMMs) and Line of Business Risk Forums.

Measurement and Monitoring: The RMF is written as a high-level standard, supplemented by detailed policies. These policies explain our approach to identifying, assessing, monitoring and controlling non-financial risk, and give guidance on mitigating actions to be taken when weaknesses are identified. In order to drive risk awareness in a more forward looking manner, we set out our risk appetite and then regularly monitor nonfinancial risk exposure against that risk appetite. This assists management in determining whether further action is required. The first line of defence are responsible for maintaining an appropriate level of internal control, commensurate with the scale and nature of operations. They are responsible for identifying and assessing risks, designing controls and monitoring the effectiveness of these controls. The RMF helps managers to fulfil these responsibilities by defining a standard risk assessment methodology and providing a tool for the systematic reporting of operational loss data.

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

Risk and control assessment approach: Operational risk and control assessments are performed by the first line of defence. The risk and control assessment process is designed to provide the first line of defence with a view of operational risks, an assessment of the effectiveness of controls, and a tracking mechanism for action plans so that they can proactively manage nonfinancial risks within acceptable levels. Appropriate means of mitigation and controls are considered

Recording We use a Group-wide risk management system to record the results of our non-financial risk management process. Non-financial risk and control assessments, as described above, are input and maintained by the first line of defence. The first line of defence monitors and follows up the progress of documented action plans. Operational risk losses are entered into the risk management system and loss against appetite reported to governance on a monthly basis.

Quantitative disclosures:	**2023**	**2022**
	BDT	**BDT**
Capital charge for operational risk	2,918,004,406	2,434,889,989

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 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 MSS.

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.

Quantitative disclosures:

	2023	**2022**
	BDT	**BDT**
Liquidity coverage ratio (%)	256.91%	196.34%
Net Stable Funding Ratio (%)	141.26%	140.84%
Stock of High quality liquid assets	114,513,097,999	92,378,615,682
Total net cash outflows over the next 30 calendar days	44,574,082,486	47,051,225,269
Available amount of stable funding	299,787,730,795	297,611,200,507
Required amount of stable funding	212,220,690,606	211,317,207,942

11 Leverage Ratio

Quantitative 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.

Qualitative disclosures:	2023 BDT	2022 BDT
Leverage ratio	11.31%	9.24%
On balance sheet exposure	371,969,821,338	376,686,893,401
Off balance sheet exposure	75,497,183,606	77,485,782,157
Total exposure	447,467,004,944	454,172,675,558

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:

	2023 BDT	2022 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	777	768
Guaranteed bonuses awarded during the financial year:		
Number of employee	831	838
Total amount of guaranteed bonuses	141,970,141	135,839,332
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	12	-
Total amount of severance payments	51,989,709	-
Total amount of outstanding deferred remuneration (in cash)	-	-
Total amount of deferred remuneration paid out in the financial year (Note 24)	15,643,722	13,404,684
Breakdown of amount of remuneration awards for the financial year:		
Fixed and variable	3,340,632,524	3,248,562,563
Variable pay (Note 24)		
Deferred	15,643,722	13,404,684
Non-deferred	553,485,389	446,136,490
	569,129,111	459,541,174