

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

Bangladesh Branches

Notes to the Financial Statements as at and for the year ended 31 December 2013

1 Background

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

HSBC also operates an Offshore Banking Unit (OBU) after obtaining its licence from Bangladesh Bank on 9 July 1998.

2 Principal activities

HSBC offers a comprehensive range of financial services in Bangladesh including commercial banking, retail banking, payments and cash management, trade services, treasury, and custody and clearing.

2.1 Retail Banking and Wealth Management: With fourteen branches, thirty eight ATMs and five Customer Service Centres in Dhaka, Chittagong, Sylhet, Narayanganj and Mymensingh, HSBC offers a wide range of personal banking and related financial services including current and savings accounts, personal loans, time deposits and inward and outward remittances.

As part of financial services, HSBC provided personal internet banking (PIB) for the customers from 2010. It provides real time viewing, control and transaction access to customer accounts and comes with a state-of-the-art security device.

2.2 Commercial Banking: Commercial banking provides a wide range of financial services and products having international connectivity to meet the need of customers. HSBC has an offshore banking unit (OBU) licence and therefore also provides foreign currency financing to qualifying customers. The Bank also established Small and Medium Enterprise banking facilities in late 2006.

2.3 Corporate and Institutional Banking: Corporate and institutional banking provides dedicated relationship management services to HSBC's clients in major corporate and financial institutions. The Bank's focus is on fostering long-term relationships based on its international connections and extensive knowledge of Asia and Asian business.

2.4 Global Markets: HSBC's Global Markets business ranks among the largest in the world and provides foreign exchange and money market services to the Central Bank, international and local corporations, institutional investors and financial institutions as well as other market participants.

2.5 Global Trade and Receivables Finance: Trade finance and related services are a long-standing core business of HSBC based on the depth and spread of its corporate customer base, commitment to service, highly automated trade processing systems and extensive geographic reach.

The Bank has eight Business Development Offices in Dhaka, Chittagong, Comilla, Mongla, Adamjee, Karnaphuli, Ishwardi and Uttara export processing zones focused on handling of export-import documents.

2.6 Payments and Cash Management: HSBC is one of the leading providers of Payments and Cash Management services to financial institutions, corporate and personal customers in Bangladesh. Underpinned by the Group's extensive global network of offices and capabilities, Payments and Cash Management assists companies through the provision of payments, collections, liquidity and account services. HSBCnet, a proprietary computer-based software package, provides customers with an instant link to HSBC's international computer network, allowing customers to perform transactions and obtain a diverse range of up-to-date information 24 hours a day, 365 days a year.

2.7 Custody and Clearing: HSBC provides custody and clearing services; the network uses an advanced securities clearing system, which was developed in-house and provides round-the-clock online real-time access to clients' securities portfolios.

2.8 Amanah: HSBC Amanah is the global Islamic financial services division of the Group, responsible for the development of Islamic financial products for distribution to customers.

Following a strategic review of all business and operations around the world, the Group decided to restructure its Islamic banking business and will no longer offer Shariah compliant products and services in Bangladesh. Within the restructuring procedure, the existing books of the Amanah business will run-off up to the maturity as per the Bangladesh Bank approval letter ref no. BRPD (P-3)745(37)/2013-1693 dated 10 April 2013.

3 Basis of preparation

3.1 Statement of compliance

The financial statements of the Bank are prepared in accordance with the Bank Companies Act 1991, in particular, Banking Regulation and Policy Department (BRPD) circular No 14 (25 June 2003), other Bangladesh Bank circulars, and International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) as adopted by the Institute of Chartered Accountants of Bangladesh (ICAB) into Bangladesh Accounting Standards (BAS) and Bangladesh Financial Reporting Standards (BFRS) where relevant to the Bank to the extent that these do not contradict the applicable statutory provisions of Bangladesh Bank (the local central bank). In case any requirement of provisions and circulars issued by Bangladesh Bank differs with those of other regulatory authorities, the provisions and circulars issued by Bangladesh Bank shall prevail.

i) Investment in shares and securities

BFRS: As per requirements of BAS 39 investment in shares and securities generally falls either under "at fair value through profit and loss account" or under "available for sale" where any change in the fair value (as measured in accordance with BFRS 13) at the year-end is taken to profit and loss account or revaluation reserve respectively.

Bangladesh Bank: As per 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

BFRS: As per requirement of BAS 39 where securities will fall under the category of Held for Trading (HFT), any change in the fair value of held for trading assets is recognised through profit and loss account. Securities designated as Held to Maturity (HTM) are measured at amortised cost method and interest income is recognised through the profit and loss account.

Bangladesh Bank: HFT securities are revalued on the basis of mark to market and at year end any gains on revaluation of securities which have not matured as at the balance sheet date are recognised in other reserves as a part of equity 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. 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.

iii) Provision on loans and advances/investments

BFRS: As per BAS 39 an entity should start the impairment assessment by considering whether objective evidence of impairment exists for financial assets that are individually significant. For financial assets that are not individually significant, the assessment can be performed on an individual or collective (portfolio) basis.

Bangladesh Bank: As per 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 5% under different categories of unclassified loans (good/standard loans) has to be maintained regardless of objective evidence of impairment. Also provision for sub-standard loans, doubtful loans and bad losses has to be provided at 20%, 50% and 100% respectively for loans and advances depending on the duration of overdue. 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 BAS 39.

iv) Recognition of interest in suspense

BFRS: Loans and advances to customers are generally classified as 'loans and receivables' as per BAS 39 and interest income is recognised through effective interest rate method over the term of the loan. Once a loan is impaired, interest income is not recognised in the financial statements.

Bangladesh Bank: As per BRPD circular no. 14 dated 23 September 2012, once a loan is classified, 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 liability in the balance sheet.

v) Other comprehensive income

BFRS: As per BAS 1 Other Comprehensive Income (OCI) is a component of financial statements or the elements of OCI are to be included in a single Other Comprehensive Income statement.

Bangladesh Bank: Bangladesh Bank has issued templates for financial statements which will strictly be followed by all banks. The templates of financial statements issued by Bangladesh Bank do not include Other Comprehensive Income nor are the elements of Other Comprehensive Income allowed to be included in a single Other Comprehensive Income (OCI) Statement. As such the Bank does not prepare the other comprehensive income statement. However, elements of OCI, if any, are shown in the statements of changes in equity.

vi) Financial instruments – presentation and disclosure

In several cases Bangladesh Bank guidelines categorise, recognise, measure and present financial instruments differently from those prescribed in BAS 39. As such full disclosure and presentation requirements of BFRS 7 and BAS 32 cannot be made in the financial statements.

vii) Financial guarantees

BFRS: As per BAS 39, financial guarantees are contracts that require an entity to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee liabilities are recognised initially at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The financial guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment when a payment under the guarantee has become probable. Financial guarantees are included within other liabilities.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

Bangladesh Branches

Bangladesh Bank: As per BRPD 14, financial guarantees such as letter of credit, letter of guarantee will be treated as off-balance sheet items. No liability is recognised for the guarantee except the cash margin.

viii) Cash and cash equivalent

BFRS: Cash and cash equivalent items should be reported as cash item as per BAS 7.

Bangladesh Bank: Some cash and cash equivalent items such as 'money at call and on short notice', treasury bills, Bangladesh Bank bills and prize bond are not shown as cash and cash equivalents. Money at call and on short notice presented on the face of the balance sheet, and treasury bills, prize bonds are shown in investments.

ix) Non-banking asset

BFRS: No indication of Non-banking asset is found in any BFRS.

Bangladesh Bank: As per BRPD 14, there must exist a face item named Non-banking asset.

x) Cash flow statement

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

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

xi) Balance with Bangladesh Bank: (Cash Reserve Requirement)

BFRS: Balance with Bangladesh Bank should be treated as other asset as it is not available for use in day to day operations as per BAS 7.

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

xii) Presentation of intangible asset

BFRS: An intangible asset must be identified and recognised, and the disclosure must be given as per BAS 38.

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

xiii) Off-balance sheet items

BFRS: There is no concept of off-balance sheet items in any BFRS; hence there is no requirement for disclosure of off-balance sheet items on the face of the balance sheet.

Bangladesh Bank: As per BRPD 14, off balance sheet items (e.g. Letter of credit, Letter of guarantee etc.) must be disclosed separately on the face of the balance sheet.

xiv) Loans and advances/Investments net of provision

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

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

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 "Marked to market" in accordance with the 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 BAS 19 and represent the financial performance and financial position of the branches in operation within Bangladesh which includes Amanah.

Amanah is separate from the conventional banking branches and the Bank maintains a separate set of accounts for Amanah which is separate from the conventional banking branches to conform to the standard adopted by Financial Accounting and Auditing Organization for Islamic Financial Institutions. In accordance with the Guidelines for Islamic Banking issued by the Banking Regulation and Policy Department (BRPD) circular No 15 dated 09 November 2009, a separate set of financial statements have been prepared for Amanah.

All balances of all branches including Amanah are included in these financial statements. In addition, separate sets of financial statements for both Offshore Banking Unit (OBU) and Amanah have been prepared.

3.3 Functional and presentation currency

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements of the Bank are presented in Bangladeshi Taka (BDT) which is the Bank's 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
- ▶ Employee benefits - as explained in note 4.18
- ▶ Income tax - as explained in note 4.20

3.5 Reporting period

These financial statements cover one calendar year from 01 January 2013 to 31 December 2013. These financial statements are authorised for issue by management of the Bank on 9 February 2014.

3.6 Cash flow statement

The cash flow statement has been prepared in accordance with the BAS 7 Cash Flow Statements considering the requirements specified in the 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.

3.8 Liquidity statement

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

4 Significant accounting policies

4.1 Foreign currencies

According to BAS 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 to customers

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

4.3 Provisions on loans and advances

At each balance sheet date and periodically throughout the year, the Bank reviews loans and advances to assess whether objective evidence that impairment of a loan or portfolio of loans has arisen supporting a change in the classification of loans and advances, which may result in a change in the provision required in accordance with BRPD circular No.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:

	2013	2012
General provision on:		
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	2.00%	2.00%
Unclassified consumer financing other than housing finance and loans for professionals	5.00%	5.00%
Unclassified agricultural loans	5.00%	5.00%
Special mention account	-	5.00%

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

Bangladesh Branches

In accordance with BRPD circular No. 05 (29 May 2013) the rate of provision on the outstanding amount of loans kept in the 'Special Mention Account' will be the same as the rates stated above i.e. 0.25% against all unclassified loans of Small and Medium Enterprise (SME), 5% on the unclassified amount for Consumer Financing, 2% on the unclassified amount for Housing Finance and 1% against all other unclassified loans.

	2013	2012
Specific provision on:		
Substandard loans and advances/investments	20%	20%
Doubtful loans and advances/investment	50%	50%
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 above, 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.2 (13 January 2003). A separate Debt Collection Unit (DCU) has been set up at the Bank's Head Office 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 ledger for all individual cases written off by each branch. The DCU follows up on the recovery efforts of these written off loans and reports to management on a periodic basis. Written off loans and advances are reported to the Credit Information Bureau (CIB) of Bangladesh Bank.

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

Provisions for unsettled transactions on nostro accounts made are reviewed semi-annually by management and certified by our external auditors in accordance with Bangladesh Bank Foreign Exchange Policy Department (FEPD) circular No. 677 (13 September 2005).

4.6 Provisions for off balance sheet exposures

BRPD circular No.14 (23 September 2012) requires a general provision for off balance sheet exposures to be calculated at 1% on all off balance sheet exposures as defined in BRPD circular No.10 (24 November 2002). Accordingly the Bank has recognised a provision of 1% on the following off balance sheet items:

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

4.7 Investments

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

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

In accordance with DOS circular No.05 (26 May 2008) and DOS circular 5 (28 January 2009) Treasury securities held for Statutory Liquidity Reserve (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.

All of the Bank's investments in shares are unquoted, and are valued based on book value of the most recent audited financial statements. Provisions are made for any loss arising from diminution in value of investments. Bonus share in their own self will have no value as the fair value of each shareholder's interest should be unaffected by the bonus issue, hence no accounting entries are passed in the book for bonus share received.

4.8 Provisions for other assets

BRPD circular No.14 (25 June 2001) requires a provision of 100% on other assets which are outstanding for one year and above. The Bank maintains provisions in line with this circular unless it assesses there is no doubt of recovery on items of other assets in which case no provision is kept.

4.9 Fixed assets (Property, plant and equipment)

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

Furniture and fixtures	10 years	10% pa
Equipment	5 to 7 years	14.28% to 20% pa
Leasehold improvements	10 years	10% pa
Motor vehicles	5 years	20% pa
Computers	3 and 4 years	33.33% and 25% pa

Following a review of the useful life of some classes of IT equipment, the depreciation period has changed from 3 to 4 years. The policy change was effective from 1 January 2012 for the new IT equipment that was purchased from 1 January 2012.

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

4.10 Intangible assets

Intangible assets include purchased computer software which are stated at cost less any impairment losses and amortisation calculated on a straight-line basis. In accordance with the provisions of BAS 38 the cost of purchased software which is not an integral part of the related hardware is booked under intangible assets. Intangible assets with finite useful life are amortised, generally on straight-line basis, over their useful lives as follows:

Purchased software	3 to 5 years	20% to 33.33% pa
--------------------	--------------	------------------

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, upgrade and maintenance costs are charged to the profit and loss account as incurred.

4.11 Finance and operating leases

Agreements which transfer to counterparties substantially all the risks and rewards incidental to the ownership of assets, but not necessarily legal title, are classified as finance leases.

When the Bank is a lessee under finance leases, the leased assets are capitalised and included in "fixed assets" and the corresponding liability to the lessor is included in "Other liabilities". A finance lease and its corresponding liability are recognised initially at the fair value of the asset or, if lower, the present value of the minimum lease payments. Finance charges payable are recognised as interest expense over the period of the lease based on the interest rate implicit in the lease so as to give a constant rate of interest on the remaining balance of the liability.

All other leases are classified as operating leases. When the Bank is the lessee under an operating lease, leased assets are not recognised in the balance sheet. Rentals payable, including rent paid in advance, under operating leases are accounted for on a straight-line basis over the period of the lease, unless another systematic basis is more representative of the time pattern of the user's benefit, and are included in "Rent expenses".

4.12 Deposits by customers and banks

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

4.13 Provisions for liabilities and charges

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.

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, are possible obligations that arise from past events whose existence 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. Contingent liabilities are not recognised in the financial statements but are disclosed unless they are remote.

4.14 Capital adequacy

According to Sub-section 3 of Section 13 of the Bank Companies Act 1991, as amended by BRPD circular No.11 (14 August 2008) and BRPD circular No. 24 (03 August 2010) all banks are required to deposit with Bangladesh Bank the higher of BDT4 billion or the minimum capital requirement calculated as 10% of risk weighted assets (RWA). The deposit may be in the form of cash or in unencumbered approved securities. Note 31 demonstrates the Bank's compliance with the overall capital requirements as disclosed above. The risk based capital adequacy framework in line with Basel II has fully come into force from 01 January 2010 as per BRPD circular No. 24 (03 August 2010).

4.15 Off setting financial assets and financial liabilities

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

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

Bangladesh Branches

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 using the effective interest method in accordance with BAS 39. The effective interest rate is the rate that exactly discounts the estimated future cash receipts or payments through the expected life of the financial asset or liability, (or where appropriate, a shorter period) to the net carrying amount of the financial asset or liability.

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but not future credit losses. The calculation includes all amounts paid or received by the Bank that are an integral part of the effective interest rate of a financial asset, including transaction costs and all other premiums or discounts.

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 as the services are provided
- ▶ income which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate

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. This is the ex-dividend date for equity securities.

4.18 Employee benefits

Short-term employee benefits

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

Long term employee benefits

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

Post-employment benefits

Post-employment benefits are employee benefits, which are payable after the completion of employment. The Bank operates a defined contribution plan, The Hongkong and Shanghai Banking Corporation Limited Staff Provident Fund (PF) and a defined benefit plan, The Hongkong and Shanghai

Banking Corporation Limited Employees Gratuity Fund (GF), both of which have been set up under an irrevocable trust deed and recognised by the Commissioner of Taxes and approved by the National Board of Revenue respectively.

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

Under the GF, the Bank's obligation to members of the scheme is to pay one month's last drawn basic salary for each year of service (as defined in the scheme trust deed) on the termination of employment. Members who leave the scheme within the first five years of service are not entitled to any benefits under this scheme.

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

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

4.19 Operating expenses

- ▶ Depreciation is discussed in the accounting policies section on Fixed Assets.
- ▶ Amortisation of software is discussed in the accounting policies section on Intangible Assets.
- ▶ Rental payments are discussed in the accounting policies section on Finance and Operating leases.
- ▶ Salaries and allowances are discussed in the accounting policies section on Employee Benefits.
- ▶ 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 by the Bank for the operations of the Bank and OBU are apportioned to each entity on the basis of total operating income. Group Head Office administration charges in respect of the Bank have not been included in the financial statements.

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 Special Regulatory Orders (SRO) and any adjustment to tax payable in respect of previous years. Currently the income tax rate applicable for banks is 42.5%; additionally, banks have to pay excess profit tax at 15% on so much of their profits as exceeds 50% of the aggregate of their capital and reserves as defined in section 16C of the Income Tax Ordinance (ITO) 1984.

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

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the balance sheet and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is calculated using the tax rates as prescribed in the Income Tax Ordinance (ITO) 1984 and relevant Special 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 account

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

A 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

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

Bangladesh Branches

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 result in the recognition of income which may never be realised.

4.23 New accounting standards

Except for the changes below, the Bank has consistently applied the accounting policies as set out in Note 4 to all periods presented in these financial statements.

The Bank has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013. The effects of the changes are also explained below.

(a) BFRS 10 Consolidated Financial Statements (2011)

The Bank is a branch and does not have any subsidiaries; as such this standard does not have any impact on these financial statements.

(b) BFRS 11 Joint Arrangements

The Bank does not have any such arrangement; as such this standard does not have any impact on these financial statements.

(c) BFRS 12 Disclosure of Interests in Other Entities

The Bank does not have material interest in other entities; as a result this standard has no significant impact on these financial statements.

(d) BFRS 13 Fair Value Measurement

BFRS 13 provides a new definition of fair value and requires new disclosures in the financial statements. Refer to Note 3.1 for how this has impact on these financial statements.

(e) Disclosures - Offsetting financial assets and financial liabilities (Amendments to BFRS 7)

As a result of the amendments to BFRS 7, expanded disclosures about offsetting financial assets and financial liabilities are required. Refer to Note 3.1 for how this has impacted these financial statements.

(f) BAS 19 Employee Benefits (2011)

As a result of BAS 19 Employee Benefits, the Bank has changed its accounting policy with respect to the basis for determining the income or expense related to post employment benefit plans.

Under BAS 19 (effective from 1 January 2013), the Bank determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Consequently, the net interest on the net defined benefit liability (asset) now comprises interest cost on defined benefit obligation, interest income on plan assets and interest on the effect on the asset ceiling.

(g) Recoverable Amounts Disclosures for Non-Financial Assets (Amendments to BAS 36) (2013)

The Bank does not have material impairment of non-financial assets; as such these amendments have no material impact on the financial statements.

(h) Novation of Derivatives and Continuation of Hedge Accounting (Amendments to BAS 39)

The Bank does not apply hedge accounting; as a result these amendments have no material impact on these financial statements.

	2013 BDT	2012 BDT
5. (i) Cash in hand (including foreign currencies)		
Local currency	1,594,026,106	1,157,028,949
Foreign currencies	188,282,442	364,081,842
	<u>1,782,308,548</u>	<u>1,521,110,791</u>

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

Bangladesh Bank - Local currency	10,282,697,597	5,325,794,017
Bangladesh Bank Amanah - Local currency	30,000,000	200,000,000
	<u>10,312,697,597</u>	<u>5,525,794,017</u>
Sonali Bank as an agent of Bangladesh Bank - Local currency	688,275	99,425
Total - Local currency (Annexure - E)	<u>10,313,385,872</u>	<u>5,525,893,442</u>
Bangladesh Bank - Foreign currencies clearing and capital accounts (Annexure - E)	4,213,195,055	3,410,675,228
	<u>14,526,580,927</u>	<u>8,936,568,670</u>
	<u><u>16,308,889,475</u></u>	<u><u>10,457,679,461</u></u>

(iii) Cash Reserve Ratio and Statutory Liquidity Reserve

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

▶ BCD circular no.13	24 May 1992
▶ BRPD circular no.12	20 September 1999
▶ BRPD circular no.22	06 November 2003
▶ BRPD circular no.11 and 12	25 August 2005
▶ BRPD circular no.01	12 January 2009
▶ MPD circular no.01	04 May 2010
▶ MPD circular no.04 and 05	01 December 2010

According to Monetary Policy Department (MPD) circular nos. 4 and 5 (01 December 2010), CRR requirement is to be complied with on a bi-weekly basis during which period the minimum CRR requirement is 6% on average and no less than 5.5% on any one day and SLR requirement to be complied with 19% for conventional and 11.5% for Islamic banking branch/windows on average demand and time liabilities respectively.

Set out below in note 5 (iv) the Bank demonstrates compliance with the CRR and SLR based on period end cash balances and in note 5 (v) the Bank demonstrates compliance with the CRR and SLR based on average cash balances during the last two weeks of the financial year ending 31 December 2013.

	2013 BDT	2012 BDT
(iv) Cash Reserve Ratio (CRR): 6% of average demand and time liabilities including Amanah		
Required reserve	5,776,041,648	5,398,685,820
Actual reserve held with Bangladesh Bank (Note 5 (iii))	10,312,697,597	5,525,794,017
Surplus/ (deficit)	<u>4,536,655,949</u>	<u>127,108,197</u>
Statutory liquidity Reserve (SLR): 19% & 11.50% of average demand and time liabilities of Conventional banking and Amanah respectively		
Required reserve	18,287,764,277	17,004,420,236
Actual reserve held with Bangladesh Bank	40,592,292,112	23,920,154,699
Surplus	<u>22,304,527,835</u>	<u>6,915,734,463</u>
(v) Cash Reserve Ratio (CRR): 6% of average demand and time liabilities		
Required reserve	5,776,041,648	5,398,685,820
Bi-weekly average reserve held with Bangladesh Bank (Annexure - D)	6,342,724,265	5,886,355,442
Surplus	<u>566,682,617</u>	<u>487,669,622</u>

6. Balance with other banks and financial institutions

Inside Bangladesh - current account

AB Bank Limited	1,549,005	738,087
IFIC Bank	1,057,256	11,604,662
Islami Bank Bangladesh	-	18,560,547
Islami Bank	-	(4,415,420)
Janata Bank Local Office	2,375,340	1,651,088
Sonali Bank Local Office	593,695	595,195
National Bank Limited	5,237,991	2,312,810
United Commercial Bank	1,209,585	4,477,728
Standard Chartered Bank	83,038,035	48,328,627
Uttara Bank	19,138,546	-
	<u>114,199,453</u>	<u>83,853,324</u>

Short term deposit

IFIC Bank Limited	21,949,828	-
Prime Bank Limited	3,730,969	(23,986,722)
Sonali Bank	89,533,767	45,800,410
United Commercial Bank	4,034,245	2,677,947
Uttara Bank Limited	228,529	221,133
	<u>119,477,338</u>	<u>24,712,768</u>
	<u>233,676,791</u>	<u>108,566,092</u>

Outside Bangladesh - current account

HSBC Hong Kong - HKD	19,353,676	4,982,428
HSBC Hong Kong (Global ATM settlement account)- HKD	4,729,120	(20,786,494)
HSBC Hong Kong - CNY	3,954,124	5,079,893
HSBC Hong Kong (USD settlement account)	150,217,620	(409,527)
HSBC Japan (JPY)	172,831,116	33,933
HSBC Singapore (SGD)	2,384,393	924,049
HSBC India - ACU	1,595,710	(108,035,803)
Credit Suisse AG, Switzerland - CHF	33,040,822	19,130,984
HSBC Bank PLC, UK - GBP	314,165,741	136,466,455
HSBC Bank USA - USD	(102,302,994)	6,379,637,898

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

Bangladesh Branches

	2013 BDT	2012 BDT
HSBC Pakistan - ACU	304,815,157	8,170,316
HSBC Sri Lanka - ACU	14,243,631	25,037,973
HSBC Bank Australia TT account- AUD	1,961,710	7,278,282
HSBC Bank Australia DD account - AUD	1,633,725	(4,074,585)
HSBC Bank Canada - CAD	4,508,005	(573,468)
Nordea Bank Norway - NOK	765,972	857,941
HSBC Bank PLC UK - EUR	507,507,422	634,056,487
HSBC Dubai -USD	8,315,683	8,622,619
HSBC Dubai -AED	696,489	4,610,354
Danske - DKK	157,541	-
(For detail see Annexure -B)	<u>1,444,574,663</u>	<u>7,101,009,735</u>
	<u>1,678,251,454</u>	<u>7,209,575,827</u>

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

Current account (including FCY nostro)	1,558,774,116	7,184,863,059
Short term deposit account	<u>119,477,338</u>	<u>24,712,768</u>
	<u>1,678,251,454</u>	<u>7,209,575,827</u>

6.2 Maturity grouping of balance with other banks and financial institutions

Payable on demand	1,678,251,454	7,209,575,827
Payable within one month	-	-
More than one month but less than three months	-	-
More than three months but less than one year	-	-
More than one year but less than five years	-	-
More than five years	-	-
	<u>1,678,251,454</u>	<u>7,209,575,827</u>

7 Money at call and short notice

Deposit with banks:		
Brac Bank Limited	-	140,000,000
Prime Bank Limited	-	200,000,000
Commercial Bank of Ceylon (term basis)	350,000,000	150,000,000
Brac Bank Limited. (term basis)	300,000,000	-
Standard Chartered Bank Limited. (term basis)	700,000,000	-
	<u>1,350,000,000</u>	<u>490,000,000</u>

8 Investments

Held to Maturity Securities (HTM)

364 day Treasury bills	3,052,595,168	2,759,997,016
5 year Government bonds	3,382,270,022	2,476,570,280
10 year Government bonds	971,286,100	556,365,406
15 year Government bonds	98,358,803	81,385,650
20 year Government bonds	104,010,737	103,656,176
	<u>7,608,520,830</u>	<u>5,977,974,528</u>

Held for Trading Securities (HFT)

30 Day Bangladesh Bank bills	1,599,461,946	999,550,769
91 day Treasury bills	120,477,179	150,205,998
182 day Treasury bills	2,200,146,442	1,349,343,198
364 day Treasury bills	13,890,859,097	8,158,408,134
2 year Government bonds	2,195,327,053	-
5 year Government bonds	1,664,348,232	225,324,671
10 year Government bonds	187,636,059	-
15 year Government bonds	57,992,402	-
20 year Government bonds	55,921,174	-
	<u>21,972,169,584</u>	<u>10,882,832,770</u>

Prize Bonds

	1,826,000	1,671,500
--	-----------	-----------

Government Securities (HTM, HFT, Prize Bonds)

	<u>29,582,516,414</u>	<u>16,862,478,798</u>
--	-----------------------	-----------------------

Other Investment

Shares of Central Depository Bangladesh Limited (3,000,000 unquoted ordinary shares including 2,400,000 bonus shares @ Tk 10 each)	6,000,000	6,000,000
	<u>6,000,000</u>	<u>6,000,000</u>
	<u>29,588,516,414</u>	<u>16,868,478,798</u>

8.1 Maturity grouping of investments

Payable on demand	1,826,000	1,671,500
Payable within one month	4,592,652,243	1,177,767,889
More than one month but less than three months	4,875,072,004	3,147,814,380
More than three month but less than one year	12,389,056,796	10,057,991,192
More than one year but less than five years	6,218,526,095	1,735,826,605
More than five years	1,511,383,276	747,407,232
	<u>29,588,516,414</u>	<u>16,868,478,798</u>

8.2 Transactions of repo and reverse repo

	Minimum outstanding	Maximum outstanding	Daily average outstanding
	BDT	BDT	BDT
2013			
Securities sold under repo:			
i) with Bangladesh Bank	7,310,000	1,700,000,000	341,403,794
ii) with other banks and financial institutions	-	-	-
Securities purchased under reverse repo:			
i) with Bangladesh Bank	350,000,000	3,500,000,000	170,273,973
ii) with other banks and financial institutions	-	-	-
2012			
Securities sold under repo:			
i) with Bangladesh Bank	-	-	-
ii) with other banks and financial institutions	-	-	-
Securities purchased under reverse repo:			
i) with Bangladesh Bank	300,000,000	9,750,000,000	183,606,557
ii) with other banks and financial institutions	-	-	-

9 Loans and advances

Loans, cash credits, overdrafts:

In Bangladesh:

Staff loans	973,058,943	920,261,072
Home mortgage loans	4,542,183,478	5,217,224,370
Car loans	150,716,805	313,215,240
Personal loans	6,271,971,913	9,270,042,924
Overdraft for retail	936,444,878	1,180,361,007
Overdraft for corporate	3,188,362,921	3,839,254,293
Term loans	7,100,515,701	8,031,677,689
Import loans	38,747,911,076	36,080,753,337
Amanah home finance	953,079,477	1,048,047,055
Amanah car finance	52,191,607	73,581,519
Amanah personal finance	16,909,283	28,274,854
Amanah term finance	219,850,822	660,047,632
Amanah import finance	-	211,789,247
	<u>63,153,196,904</u>	<u>66,874,530,239</u>

Outside Bangladesh

	63,153,196,904	66,874,530,239
Bills purchased and discounted (note 9.10)	891,534,835	1,690,451,106
	<u>64,044,731,739</u>	<u>68,564,981,345</u>

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

Payable on demand	6,495,398,780	10,123,402,175
Payable within one month	13,027,819,322	8,575,519,289
More than one month but less than three months	14,331,154,023	15,928,373,600
More than three months but less than one year	12,446,774,830	12,020,187,666
More than one year but less than five years	12,126,512,438	15,503,587,306
More than five years	5,617,072,346	6,413,911,309
	<u>64,044,731,739</u>	<u>68,564,981,345</u>

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

Advances to allied concerns of directors	-	-
Advances to the chief executive officer	-	-
Advances to other seniors executives and staff of the Bank	973,058,943	920,261,072
Advances to customers' group	35,803,367,038	22,136,720,273
Industrial advances	27,268,305,758	45,508,000,000
	<u>64,044,731,739</u>	<u>68,564,981,345</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 the clients	107	91
Amount of outstanding advances	29,189,898,458	27,219,957,416
Amount of classified advances	-	-

9.4 Cash collateral against total outstanding loans and advances as at 31 December

	4,711,306,438	3,494,824,429
--	---------------	---------------

9.5 Loans and advances including bills purchased and discounted

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

Bangladesh Branches

	2013 BDT	2012 BDT
Loans	59,919,923,940	63,545,366,045
Overdrafts	4,124,807,799	5,019,615,300
	64,044,731,739	68,564,981,345

9.6 Particulars of loans and advances industry-wise classification

	2013	2012
Readymade garments	6,541,005,493	5,162,932,479
Textile industries	4,391,013,128	1,651,330,839
Agriculture and agro processing	13,507,696,877	11,994,911,991
Steel and metal	3,910,022,816	4,540,495,418
Leather and leather products	2,721,321	224,543,817
Transport	357,945,956	583,973,211
Trade	2,630,891,562	5,437,139,898
Chemical and pharmaceuticals	4,574,485,544	5,207,894,809
Petroleum and coal products	511,091,884	594,179,666
Cement industries	1,021,101,334	1,187,254,820
Non-banking financial institutions	8,108,692	23,544,744
Telecommunication	8,023,297,300	3,066,988,050
Non Government Organization (NGO)	86,982,373	52,551,797
Power and energy	174,021,250	991,714,855
Retail loans	12,923,497,441	17,130,746,969
Staff loans	973,058,943	920,261,072
Others	4,407,789,825	9,794,516,911
	64,044,731,739	68,564,981,345

9.7 Classification of loan and advances

	2013	2012
Unclassified:		
Standard	62,273,964,649	67,383,325,094
Special Mention Account	425,711,647	496,900,097
	62,699,676,296	67,880,225,191
Classified:		
Substandard	581,229,531	346,477,259
Doubtful	305,429,130	74,589,920
Bad/Loss	458,396,782	263,688,975
	1,345,055,443	684,756,154
	64,044,731,739	68,564,981,345

9.8 Particulars of loans and advances

	2013	2012
i) Loans considered good in respect of which the Bank is fully secured;	57,967,307,469	60,695,591,322
ii) Loans considered good against which the Bank holds no security other than the debtor's personal guarantee;	5,104,365,327	6,949,128,951
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;	973,058,943	920,261,072
vi) Loans due from companies or firms in which the directors of the Bank has 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;	973,058,943	920,261,072
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	1,345,055,443	684,756,154
b) Provision on classified loans and advances (For movement see note 14.5)	457,926,415	213,649,951
c) Interest creditable to the interest suspense account (note 14.7)	190,651,320	98,942,583
xi) Cumulative amount of written off loans		
Opening balance	1,092,643,872	671,462,038
Amount written off during the year (note 14.5)	94,645,558	421,181,834
	1,187,289,430	1,092,643,872
The amount of written off loan for which law suit has been filed	1,121,405,927	961,680,370

9.9 Geographical analysis of loans and advances

Dhaka division	55,572,908,736	58,007,621,806
Chittagong division	7,926,731,681	9,823,943,280
Sylhet division	545,091,322	733,416,259
	64,044,731,739	68,564,981,345

9.10 Bills purchased and discounted

Inside Bangladesh	163,974,897	932,597,217
Outside Bangladesh	727,559,938	757,853,889
	891,534,835	1,690,451,106

9.11 Maturity analysis of bills purchased and discounted

Payable within one month	775,520,049	1,404,505,201
More than one month but less than three months	105,501,125	253,152,405
More than three months but less than six months	10,513,661	32,793,500
More than six months	-	-
	891,534,835	1,690,451,106

10 Fixed assets including premises furniture and fixtures

2013	Furniture and fixtures	Equipment	Motor vehicles	Computers	Total
	BDT	BDT	BDT	BDT	BDT
Cost					
Balance as at 1 January	239,264,125	551,975,412	48,033,645	306,636,315	1,145,909,497
Addition during the year	23,655,418	67,191,447	4	52,191,200	143,038,069
Disposals/adjustment	(42,279,614)	(27,885,658)	(12,101,000)	(15,090,507)	(97,356,779)
Balance as at 31 December	220,639,929	591,281,201	35,932,649	343,737,008	1,191,590,787

Accumulated depreciation and impairment charges

Balance as at 1 January	146,289,769	326,108,347	36,740,300	197,070,749	706,209,165
Depreciation charge for the year	39,441,594	70,863,207	5,754,542	29,316,163	145,375,506
Impairment charge during the year (Note 10.1)	6,251,641	331,390	-	-	6,583,031
On disposals/adjustments	(40,271,341)	(27,420,348)	(12,101,000)	(14,964,465)	(94,757,154)
Balance as at 31 December	151,711,663	369,882,596	30,393,842	211,422,447	763,410,548

Net book value as at 31 December

	68,928,266	221,398,605	5,538,807	132,314,561	428,180,239
--	-------------------	--------------------	------------------	--------------------	--------------------

2012	Furniture and fixtures	Equipment	Motor vehicles	Computers	Total
	BDT	BDT	BDT	BDT	BDT
Cost					
Balance as at 1 January	239,923,734	492,900,009	53,098,741	287,094,584	1,073,017,068
Addition during the year	6,870,121	64,007,216	14,904	24,955,241	95,847,482
Disposals/adjustment	(7,529,730)	(4,931,813)	(5,080,000)	(6,048,510)	(23,590,053)
Other movements	-	-	-	635,000	635,000
Balance as at 31 December	239,264,125	551,975,412	48,033,645	306,636,315	1,145,909,497

Accumulated depreciation and impairment charges

Balance as at 1 January	110,131,038	263,704,148	34,515,311	179,533,496	587,883,993
Charge for the Year	43,336,748	67,118,279	7,304,989	23,183,569	140,943,585
On disposals/adjustments	(7,178,017)	(4,714,080)	(5,080,000)	(5,859,594)	(22,831,691)
Other movements	-	-	-	213,278	213,278
Balance as at 31 December	146,289,769	326,108,347	36,740,300	197,070,749	706,209,165

Net book value as at 31 December

	92,974,356	225,867,065	11,293,345	109,565,566	439,700,332
--	-------------------	--------------------	-------------------	--------------------	--------------------

Costs of BDT 19,135,000 (2012: BDT 31,135,000), accumulated depreciation of BDT 16,025,250 (2012: BDT 25,553,250) and net book value of BDT 3,109,750 (2012: BDT 5,581,750) included within motor vehicles above relate to assets acquired under finance leases, where the lease period is no more than 5 years. The Bank has the option to purchase these assets on expiry of the lease at a predetermined terminal value.

10.1 Due to noticeable distresses including cracks and severe spilling of concrete at the bank's office in Agrabad, Chittagong, operations from that location have been relocated to another office temporarily. The bank's objective assessment indicates that the carrying value of some fixed assets may not be recoverable against which impairment charges have been raised.

	2013 BDT	2012 BDT
--	-------------	-------------

11 Other assets

Classification of other assets

a) Income generating other assets

Offshore Unit, Dhaka (USD 125,347,600, 2012: USD 136,750,780)	9,730,746,722	10,941,019,655
	9,730,746,722	10,941,019,655

b) Non-income generating other assets

Offshore Unit, Dhaka (USD 15,605,379), 2012: USD 10,160,102)	1,211,447,132	812,879,260
Stamp in hand	2,835,954	2,577,140

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

Bangladesh Branches

	2013 BDT	2012 BDT
Intangible assets (note 11.1)	9,134,640	9,914,461
Other debtors (note 11.2)	130,268,140	46,536,642
Rent paid in advance	262,971,255	218,507,745
Other prepayments	65,374,841	2,719,379
Refundable deposits	6,384,532	3,880,757
Accrued interest on Bangladesh Bank foreign currency capital and clearing account	417,406	397,248
Accrued coupon interest on Bangladesh government treasury bond	264,402,420	109,491,182
Interest on balance with other banks and financial institutions	3,947,178	2,348,237
Items in course of collection from other banks	754,080	177,420,735
Commission receivable	27,342,927	22,408,191
Encashment of Bangladesh Sanchayapatra awaiting for reimbursement from Bangladesh Bank	330,976,389	438,233,702
Net surplus asset of defined benefit schemes (note 24.2)	69,203,990	107,851,731
Unrealised gain on foreign exchange contract	55,556,308	73,186,371
	<u>2,441,017,192</u>	<u>2,028,352,781</u>
	<u>12,171,763,914</u>	<u>12,969,372,436</u>

11.1 Intangible assets (purchased software)

Cost		
Balance as at 1 January	30,197,901	26,594,444
Acquisition during the year	6,038,334	4,238,457
Adjustments	-	(635,000)
Balance as at 31 December	<u>36,236,235</u>	<u>30,197,901</u>
Accumulated amortisation		
Balance as at 1 January	20,283,440	11,809,983
Charge for the year	6,818,155	8,686,735
Adjustments	-	(213,278)
Balance as at 31 December	<u>27,101,595</u>	<u>20,283,440</u>
Net book value as at 31 December	<u>9,134,640</u>	<u>9,914,461</u>

11.2 Other debtors

Petty cash advance	255,000	200,000
Security charges recoverable	5,231,302	2,050,191
Others	124,781,838	44,286,451
	<u>130,268,140</u>	<u>46,536,642</u>

12 Borrowings from other banks, financial institutions and agents

In Bangladesh:		
Money market call borrowings (note 12.1)	-	300,000,000
Term borrowings (note 12.2)	4,565,268,453	2,960,576,137
Other deposits-vostro account (note 12.3)	71,568,757	183,891,435
	<u>4,636,837,210</u>	<u>3,444,467,572</u>
Outside Bangladesh	-	-
	<u>4,636,837,210</u>	<u>3,444,467,572</u>

12.1 Money Market Call borrowing

Woori Bank	-	<u>300,000,000</u>
------------	---	--------------------

12.2 Term borrowing

Foreign currency borrowing from Bangladesh Bank under export development funds	<u>4,565,268,453</u>	<u>2,960,576,137</u>
--	----------------------	----------------------

12.3 Other deposits - Vostro account

Bank of New York, New York	2,552,490	5,371,095
Deutsche Bank AG, London	16,126,866	151,319,824
HBFS - B, Hong Kong	-	6,892
HSBC Bank PLC, London	24,807,452	18,652,159
Pershing LLC, New Jersey	25,507,006	2,800,852
PNC Bank N.A, New York	96,850	1,090,639
Premier Bank, Dhaka	34,602	34,722
Prime Bank, Dhaka	225,240	952,638
Pubali Bank Limited, Dhaka	365,786	360,984
Standard Bank PLC, Cape Town	1,354,896	629,310
Saudi British Bank, Riyadh	213,850	2,671,559
HSBC Bank Middle East Limited, Dubai	759	761
HSBC Bank PLC IFS, London	157,600	-
HSBC Bank Oman Saog, Seeb	125,360	-
	<u>71,568,757</u>	<u>183,891,435</u>

12.4 Classification based on type of security

Secured	-	-
Unsecured	4,636,837,210	3,444,467,572
	<u>4,636,837,210</u>	<u>3,444,467,572</u>

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

Payable on demand	71,568,757	483,891,435
Payable within one month	-	-
More than one month but less than three months	376,806,133	760,538,054
More than three months but less than one year	4,188,462,320	2,200,038,083
More than one year but less than five years	-	-
Over five years	-	-
	<u>4,636,837,210</u>	<u>3,444,467,572</u>

13 Deposits and other accounts

Current deposits and other accounts:		
Current account including Al-wadeeah current deposits	14,205,763,611	14,563,902,584
Foreign currency deposits	5,385,569,636	6,615,824,372
Sundry deposits	8,615,324,548	8,894,692,393
	<u>28,206,657,795</u>	<u>30,074,419,349</u>

Bills payable:		
Cashiers order issued	714,738,055	671,913,331
Drawings payable	857,556,903	1,567,329,084
	<u>1,572,294,958</u>	<u>2,239,242,415</u>

Saving deposits including Mudaraba deposits	11,905,792,865	12,149,116,527
---	----------------	----------------

Term deposits:		
Short term deposits	14,563,622,598	9,789,692,615
Term deposits including Mudaraba term deposits	35,739,849,113	32,383,167,506
	<u>50,303,471,711</u>	<u>42,172,860,121</u>
	<u>91,988,217,329</u>	<u>86,635,638,412</u>

13.1 Maturity analysis of deposits and other accounts

Payable on demand	32,960,927,912	35,107,347,315
Payable within one month	13,608,201,507	10,465,545,371
More than one month but less than three months	6,662,536,716	9,561,969,105
More than three months but less than one year	23,294,494,119	15,341,106,694
More than one year but less than five years	15,462,057,075	16,159,669,927
Over five years	-	-
	<u>91,988,217,329</u>	<u>86,635,638,412</u>

14 Other liabilities

Accrued interest on customer deposits	1,276,175,174	1,033,777,838
Commission received in advance	474,242,597	319,209,217
Obligation under finance lease - principal only (note 14.1)	3,819,457	6,800,524
Provisions for liabilities and charges (note 14.2)	594,997,406	592,116,210
Deferred tax (note 14.3)	94,016,182	28,856,361
Other creditors	273,398,007	233,337,375
Items in course of transmission	145,206,389	176,816,901
Provision for loans and advances and off balance sheet exposures (note 14.5)	2,806,058,434	2,462,862,133
Other provision (note 14.6)	2,410,629	-
Interest suspense account (note 14.7)	190,651,320	98,942,583
Interest received on non performing advances (note 14.8)	108,146,837	105,106,792
Provision for taxation (note 14.9)	2,415,707,355	2,492,705,106
Unrealised loss on foreign exchange contracts	190,972,305	36,159,660
Excise duty payable	8,167,327	3,527,914
	<u>8,583,969,419</u>	<u>7,590,218,614</u>

14.1 Obligation under finance leases

	Total future minimum payments	Future interest charges	Present value of finance lease obligation
	BDT	BDT	BDT
2013			
Lease obligation:			
Within one year	2,466,488	(395,893)	2,070,595
More than one year but less than five years	1,849,904	(101,042)	1,748,862
More than five years	-	-	-
	<u>4,316,392</u>	<u>(496,935)</u>	<u>3,819,457</u>
2012			
Lease obligation:			
Within one year	3,681,772	(700,715)	2,981,057
More than one year but less than five years	4,316,402	(496,935)	3,819,467
More than five years	-	-	-
	<u>7,998,174</u>	<u>(1,197,650)</u>	<u>6,800,524</u>

14.2 Provision for liability and charges

Balance as at 1 January	592,116,210	514,229,564
Net charge to profit & loss account	594,997,406	592,116,210
Provision released	(592,116,210)	(514,229,564)
Balance as at 31 December	<u>594,997,406</u>	<u>592,116,210</u>

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

Bangladesh Branches

14.3 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	
	2013 BDT	2012 BDT	2013 BDT	2012 BDT	2013 BDT	2012 BDT
Specific Provisions on loans and advances	37,110,611	41,470,467	-	-	37,110,611	41,470,467
Fixed Assets	-	-	(22,283,387)	(23,591,220)	(22,283,387)	(23,591,220)
Intangible Assets	-	-	(721,608)	(1,032,816)	(721,608)	(1,032,816)
Actuarial gain / (losses)	25,283,897	8,858,607	-	-	25,283,897	8,858,607
Unrealised interest on HTM securities	-	-	(93,453,775)	(52,325,429)	(93,453,775)	(52,325,429)
Unrealised interest on revaluation of HFT securities	-	-	(39,951,920)	(2,235,970)	(39,951,920)	(2,235,970)
Total	62,394,508	50,329,074	(156,410,690)	(79,185,435)	(94,016,182)	(28,856,361)

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 items of the deferred tax that are recognised by the bank as a temporary differences with expected time of realisation.

Specific provisions on loans and advances

As per the 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 the 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 BAS 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 14.4.

Year of loan classification	Year of deferred tax recognition	Deferred tax amount	
		2013 BDT	2012 BDT
2008	2011	-	1,271,400
2010	2011	419,416	419,416
2011	2012	36,691,195	36,691,195
2012	2012	-	3,088,456
Total		37,110,611	41,470,467

Fixed assets and intangible assets

As per the local tax rules accounting depreciation is not tax allowable. However, the tax office will allow tax depreciation. Hence temporary difference arises due to the different depreciation rates and methodology, against which the Bank recognises deferred tax. This is an ongoing item as there is a difference between tax depreciation and accounting depreciation rate. However, the outstanding amount of deferred tax will be automatically released with the expiry of the economic useful life of the assets.

Actuarial gain/(losses)

Deferred tax relating to actuarial gains and losses is recognised directly in other reserves. According to the BAS 19, actuarial gains and losses are recognised in other reserves under shareholders equity in the period in which they arise. This is an ongoing item as the calculation of actuarial gain/loss and deferred tax thereon is recognised on a yearly basis.

Unrealised interest on revaluation of HTM and HFT securities

Deferred tax relating to unrealised interest on the revaluation of Held to Maturity (HTM) and Held for Trading (HFT) securities is recognised directly in other reserves as a part of equity and is subsequently recognised in the profit and loss account on maturity of the securities. The deferred tax recognised against this will be fully reversed at the maturity of all related securities.

	2013 BDT	2012 BDT
Balance as at 1 January	(28,856,361)	107,026,343
((Charge)/credit to profit and loss account (note 14.4.1)	(2,740,815)	(93,785,938)
(Charge)/credit to reserves (Note 14.4.2)	(62,419,006)	(42,096,766)
Balance as at 31 December	(94,016,182)	(28,856,361)

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

	Difference between tax depreciation and accounting depreciation (fixed assets)	Difference between tax depreciation and accounting depreciation (intangible assets)	Specific provision on loans and advances	Total
	BDT	BDT	BDT	BDT
2013				
Balance as at 1 January	(23,591,220)	(1,032,816)	41,470,467	16,846,431
(Charge)/credit to profit and loss account	1,307,833	311,208	(4,359,856)	(2,740,815)
Balance as at 31 December	(22,283,387)	(721,608)	37,110,611	14,105,616
2012				
Balance as at 1 January	(32,915,023)	(2,664,678)	146,212,070	110,632,369
(Charge)/credit to profit and loss account	9,323,803	1,631,862	(104,741,603)	(93,785,938)
Balance as at 31 December	(23,591,220)	(1,032,816)	41,470,467	16,846,431

14.4.2 Deferred tax (charged)/credited to reserves

	Actuarial gains / (losses)	Unrealised interest on revaluation of HTM securities	Unrealised interest on revaluation of HFT securities	Total
	BDT	BDT	BDT	BDT
2013				
Balance as at 1 January	8,858,607	(52,325,429)	(2,235,970)	(45,702,792)
(Charge)/credit to reserves	16,425,290	(41,128,346)	(37,715,950)	(62,419,006)
Balance as at 31 December	25,283,897	(93,453,775)	(39,951,920)	(108,121,798)
2012				
Balance as at 1 January	29,175,459	(29,377,418)	(3,404,067)	(3,606,026)
(Charge)/credit to reserves	(20,316,852)	(22,948,011)	1,168,097	(42,096,766)
Balance as at 31 December	8,858,607	(52,325,429)	(2,235,970)	(45,702,792)

14.5 Provision for loans and advances and off balance sheet exposures

	General provision on loans and advances	General provision on off balance sheet exposures	Total general provisions	Specific provision on loans and advances	Total provision
	BDT	BDT	BDT	BDT	BDT
2013					
Balance as at 1 January	1,210,597,302	1,038,614,880	2,249,212,182	213,649,951	2,462,862,133
Written off during the year	-	-	-	(94,645,558)	(94,645,558)
Release/recoveries during the year	(245,063,903)	-	(245,063,903)	(168,866,946)	(413,930,849)
Provision made during the year	-	343,983,740	343,983,740	507,788,968	851,772,708
Balance as at 31 December	965,533,399	1,382,598,620	2,348,132,019	457,926,415	2,806,058,434
2012					
Balance as at 1 January	1,185,575,365	818,486,022	2,004,061,387	505,844,756	2,509,906,143
Written off during the year	-	-	-	(421,181,834)	(421,181,834)
Release/recoveries during the year	-	-	-	(151,219,879)	(151,219,879)
Provision made during the year	25,021,937	220,128,858	245,150,795	280,206,908	525,357,703
Balance as at 31 December	1,210,597,302	1,038,614,880	2,249,212,182	213,649,951	2,462,862,133

14.6 Other provision

	2013 BDT	2012 BDT
On balances with other banks and financial institution-nostro accounts (note 14.6.1)	-	-
On balances with other banks and financial institution-nostro accounts (note 14.6.1) For guarantee (note 14.6.2)	12,789	-
For other impairment (note 14.6.3)	2,397,840	-
	2,410,629	-

14.6.1 Provision on balances with other banks and financial institutions -nostro accounts

Balance as at 1 January	-	360,935
-------------------------	---	---------

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

Bangladesh Branches

	2013 BDT	2012 BDT
Provision released	-	(360,935)
Provision made during the year	12,789	-
Balance as at 31 December	12,789	-

14.6.2 Provision for guarantee

Balance as at 1 January	-	20,248,332
Written off during the year	-	(20,248,332)
Provision made during the year	-	-
Balance as at 31 December (Note 11.3)	-	-

14.6.3 Provision for other impairment

Balance as at 1 January	-	-
Provision made during the year	2,397,840	4,488,000
Written off during the year	-	(4,488,000)
Balance as at 31 December	2,397,840	-

14.7 Interest suspense account

Balance as at 1 January	98,942,583	383,146,054
Recoveries during the year	(97,510,116)	(203,023,070)
Written off during the year	(40,770,920)	(400,453,054)
Provision made during the year	229,989,773	319,272,653
Balance as at 31 December	190,651,320	98,942,583

14.8 Interest received on non performing advances

Interest received from non performing advances is shown under other liabilities to comply with the BAS 39. As per BAS 39 interest realised from non performing advances can not be shown in the profit and loss account unless the loan is fully settled, upgraded or written off.

	2013 BDT	2012 BDT
14.9 Provision for tax net of advance income tax paid		
Provision for tax		
Balance as at 1 January	4,161,553,130	3,328,241,498
Provision made during the year		
Onshore unit	3,794,688,212	3,646,533,867
Offshore unit	727,801,828	515,019,263
	4,522,490,040	4,161,553,130
Adjustments made during the year		
Onshore unit	(3,646,533,867)	(2,973,957,576)
Offshore unit	(515,019,263)	(354,283,922)
	(4,161,553,130)	(3,328,241,498)
Balance as at 31 December	4,522,490,040	4,161,553,130
Advance income tax paid		
Balance as at 1 January	1,668,848,024	1,079,263,515
Amount paid during the year	4,598,484,596	3,914,654,324
Adjustments made during the year	(4,160,549,935)	(3,325,069,815)
Balance as at 31 December	2,106,782,685	1,668,848,024
Net Provision	2,415,707,355	2,492,705,106

Provision for income tax is on the basis of applicable income tax regulations of Bangladesh. Tax return for the financial year ended 31 December 2013 will be filed with the tax authorities by the due date of 15 July 2014.

The assessment for the accounting year 1997 (assessment year 1998-99) is yet to be finalised. The Bank has filed an appeal against the order of Taxes Appellate Tribunal to the High Court relating to assessment year 1998-99. The assessing authority had disallowed certain Group head office charges. However, no provision is required, as the Bank had adjusted the loss of 1996 with that of 1997. If the appeal is ruled in the Bank's favour the Bank will be entitled to a refund of BDT 43,473,000 which the Bank will offset against any future tax liabilities.

The assessment for the accounting years 2006, 2007 and 2009 are yet to be finalised. The tax authorities have not accepted the Bank's excess profit computation for 2006 and 2007 on the grounds that they do not consider general provisions and tax rebate on head office expenses to be part of capital of the Bank. The excess profit computation for 2009 has also been challenged on the same grounds as well arguing that various other components, including retained earnings, do not form part of capital.

For accounting year 2006 the Bank has filed an appeal against the order of Taxes Appellate Tribunal to the High Court whereas for 2007 and 2009 appeals have been filed against order of Deputy Commissioner of Tax to the Deputy Commissioner of Tax (Appeal).

Management believe that the above components are part of capital and are considered as core capital in capital adequacy calculation as per Bank Companies Act 1991. The Bank's legal counsel has the same opinion. Hence no provision is made for the same.

	2013 BDT	2012 BDT
15 Capital		
Fund deposited with Bangladesh Bank at 1 January	2,976,054,214	3,034,975,590
Exchange difference: USD 35,938,625 x (77.6301-80.0070); (2012: 80.0070-81.6465)	(85,422,517)	(58,921,376)
Funds deposited with Bangladesh Bank at 31 December	2,890,631,697	2,976,054,214

16 Other reserves

Unrealised interest on amortization of HTM securities

Opening balance	70,793,228	39,745,922
Unrealised interest on amortisation of HTM securities during this year	220,578,248	143,335,085
Unrealised interest on amortisation of HTM securities realised during this year	(123,805,670)	(89,339,768)
	96,772,578	53,995,317
Deferred tax liabilities (Note 14.4.2)	(41,128,346)	(22,948,011)
	55,644,232	31,047,306
Closing balance	126,437,460	70,793,228

Unrealised interest on revaluation of HFT securities

Opening balance	3,025,136	4,605,502
MTM reserve for HFT during this year	94,004,518	5,261,106
MTM reserve for HFT realised during this year	(5,261,106)	(8,009,569)
	88,743,412	(2,748,463)
Deferred tax liabilities (Note 14.4.2)	(37,715,950)	1,168,097
	51,027,462	(1,580,366)
Closing balance	54,052,598	3,025,136

Actuarial gain/(loss):

Opening balance	(11,985,174)	(39,472,681)
Actuarial gain/(loss) during this year (note 24.2.5)	(38,647,741)	47,804,359
Less: Deferred tax assets (note 14.4.2)	16,425,290	(20,316,852)
	(22,222,451)	27,487,507
Closing balance	(34,207,625)	(11,985,174)
Total other reserves	146,282,433	61,833,190

17 Profit and loss account

Opening balance	16,291,576,197	10,500,010,107
Profit for the year	5,622,346,623	5,791,566,090
Profit remitted to head office	(4,589,527,673)	-
Retained profit for the year	17,324,395,147	16,291,576,197

18 Contingent liabilities and commitments

Claim against the Bank not acknowledged as debts	-	-
Acceptances and endorsements	50,610,621,277	42,693,466,174
	50,610,621,277	42,693,466,174

Letter of guarantee:

Money for which the Bank is contingently liable in respect of guarantees given favouring

Government	17,168,757,718	16,542,127,029
Bank and other financial institutions	76,408,310	112,164,116
Others	2,273,349,623	1,964,698,866
	19,518,515,651	18,618,990,011
Others		
Irrevocable letters of credit	55,120,491,989	37,724,342,128
Foreign exchange contracts - spot and forward	13,010,233,076	4,824,689,666
	68,130,725,065	42,549,031,794
	138,259,861,993	103,861,487,979

19 Interest income and profit received

Staff loans	39,238,363	34,685,946
Home mortgages loans	625,208,785	645,749,232
Car loans	38,529,082	68,960,115
Personal loans	1,189,020,869	1,520,531,161
Overdraft for retail	122,337,391	136,386,573
Overdraft for corporate	459,563,563	477,646,564
Term loans	1,112,252,729	852,527,855
Import loans	4,498,381,245	4,498,486,887
Export and import bills	188,274,004	342,229,557
Amanah home finance	123,018,795	123,800,418
Amanah car finance	9,994,786	12,209,378
Amanah personal finance	3,726,511	5,516,310
Amanah term finance	50,665,120	116,776,419
Amanah import finance	9,018,673	90,879,432
Income from money market	143,253,472	444,717,938
Income from Offshore Banking Unit (OBU)	21,183,032	25,405,796
Other correspondence Bank	3,059,541	1,075,846
Income from nostro accounts	690,890	319,806
Income from Bangladesh Bank FCY account	7,363,619	8,783,463
	8,644,780,470	9,406,688,696

20 Interest and profit paid on deposits and borrowings

Saving accounts	267,679,359	256,444,579
Profit paid on Mudaraba savings deposits	1,897,702	13,949,651

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

Bangladesh Branches

	2013 BDT	2012 BDT
Term deposits	4,036,310,888	3,382,068,837
Profit paid on Mudaraba term investment	4,460,029	22,675,367
Marginal deposit	13,391,462	11,664,536
Interest paid on finance lease	492,955	1,278,360
Interest on vostro and overdrawn nostro	938,728	1,887,482
Money market call borrowing	28,238,541	13,281,219
Money market term borrowing	67,113,646	55,192,014
Interest on OBU	381,113	2,640,573
Interest on repo	25,125,691	-
	<u>4,446,030,114</u>	<u>3,761,082,618</u>

21 Income from investment

Interest on treasury bills/bonds	2,356,851,815	1,102,403,179
Interest on reverse repo	9,054,452	10,420,510
Interest on Bangladesh Bank bills	170,314,789	15,226,000
Dividend on shares	16,500,000	2,400,000
	<u>2,552,721,056</u>	<u>1,130,449,689</u>

22 Commission, exchange and brokerage

Dealing profit	2,003,570,155	2,178,742,799
Commission income:		
Import LC	2,140,683,560	1,667,332,773
Export LC	987,856,279	1,233,720,263
Remittances	50,693,023	52,844,346
Account services	107,684,650	140,624,492
Credit facilities	559,840,536	289,095,783
Cards	43,119,905	45,026,064
Collection bills	1,704,644	2,490,667
Global custody	25,119,229	16,406,851
Other commissions and charges	83,185,138	93,316,836
	<u>3,999,886,964</u>	<u>3,540,858,075</u>
Commission paid	(59,902,859)	(84,617,361)
	<u>3,939,984,105</u>	<u>3,456,240,714</u>
	<u>5,943,554,260</u>	<u>5,634,983,513</u>

23 Other operating income

Profit/(loss) on disposals of fixed assets	(238,166)	713,587
Other income	204,459	2,729,144
	<u>(33,707)</u>	<u>3,442,731</u>

24 Salaries and allowances

Short term employee benefits		
Basic salary	702,793,971	601,952,022
Allowances	348,819,533	314,443,106
Bonus	405,255,763	368,888,044
Others	231,656,368	88,896,270
	<u>1,688,525,635</u>	<u>1,374,179,442</u>
Long term employee benefits		
Bonus	10,912,000	11,338,525
	<u>10,912,000</u>	<u>11,338,525</u>
Post employment benefits		
Contribution to the defined benefit plan (note 24.1)	45,555,000	52,278,000
Contribution to the defined contribution plan	42,713,157	42,226,432
	<u>88,268,157</u>	<u>94,504,432</u>
	<u>1,787,705,792</u>	<u>1,480,022,399</u>

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

Current service cost	59,263,000	62,418,000
Interest cost	33,029,000	28,921,000
Expected returns on plan assets	(46,737,000)	(39,061,000)
Past service cost	-	-
Contribution to the defined benefit plan (note 24)	<u>45,555,000</u>	<u>52,278,000</u>

24.2 Net asset recognised on the balance sheet in respect of the defined benefit plan

The Hongkong and Shanghai Banking Corporation Limited Employees Gratuity Fund (note 24.2.2)	69,203,990	107,851,731
---	------------	-------------

24.2.1 Post-employment defined benefit plans' principal actuarial financial assumptions

	2013	2012
Rate of return on investments	10%	10%
Rate of increase in pay	12%	12%

24.2.2 Defined benefit plans

The calculation of the net liability under the Bank's defined benefit plan is set out below together with the expected rates of return and plan assets used to measure the net defined benefit plan cost in each subsequent year.

	Expected rates of return %	2013 BDT	2012 BDT
Fair value of plan assets (note 24.2.4)	10%		
Balance with Bank		91,504,195	84,509,897
Bangladesh Sanchayapatra (BSP)		382,641,795	346,590,834
Investment in term deposits		-	-
		<u>474,145,990</u>	<u>431,100,731</u>
Defined benefit obligation (note 24.2.3)			
Present value of funded obligations		404,942,000	323,249,000
Present value of unfunded obligations		-	-
		<u>404,942,000</u>	<u>323,249,000</u>
Net assets		<u>69,203,990</u>	<u>107,851,731</u>

Plan assets are not invested in any assets issued by the Bank or in any property occupied by the Bank. The rate of return expected on plan assets is based on the expected rate paid by the Bank on the deposits placed by the Trustees of the Gratuity Fund with the Bank and also investment return from BSP.

24.2.3 Changes in the present value of defined benefit obligations

	2013 BDT	2012 BDT
At 1 January	323,249,000	311,151,000
Current Service cost	59,263,000	62,418,000
Interest cost	33,029,000	28,921,000
Actuarial (gains)/losses	32,673,531	(48,484,618)
Experience (gains)/losses	-	-
Benefits paid	(43,272,531)	(30,756,382)
At 31 December (note 24.2.2)	<u>404,942,000</u>	<u>323,249,000</u>

24.2.4 Changes in the fair value of plan assets

At 1 January	431,100,731	371,198,372
Expected returns on plan assets	46,737,000	39,061,000
Contributions by the Bank	45,555,000	52,278,000
Experience losses	(5,974,210)	(680,259)
Benefits paid	(43,272,531)	(30,756,382)
At 31 December (note 24.2.2)	<u>474,145,990</u>	<u>431,100,731</u>

The actual return on plan assets for the year ended 31 December 2013 was BDT 40,762,790 (2012: BDT 38,380,741). The Bank expects to make BDT 58,542,000 of contributions to the defined benefit plan in 2014.

24.2.5 Summary

	2013 BDT	2012 BDT
Defined benefit obligations (note 24.2.3)	(404,942,000)	(323,249,000)
Fair value of plan assets (note 24.2.4)	474,145,990	431,100,731
Net assets	<u>69,203,990</u>	<u>107,851,731</u>
Actuarial (gains)/losses due to experience and assumptions (note 24.2.3)	32,673,531	(48,484,618)
Experience losses (note 24.2.4)	5,974,210	680,259
Total net actuarial (gains)/losses (note 16)	<u>38,647,741</u>	<u>(47,804,359)</u>

25 Legal expenses

Legal expenses	20,158,774	15,713,170
Other professional charges	11,325,841	14,294,939
	<u>31,484,615</u>	<u>30,008,109</u>

26 Auditors' fee

Statutory audit	600,000	300,000
Statutory audit - Amanah	100,000	100,000
	<u>700,000</u>	<u>400,000</u>

27 Depreciation, impairment and repair of Bank's assets

Repair and maintenance	79,589,991	68,549,767
Impairment of fixed assets (note 10)	6,583,031	-
Depreciation on fixed assets (note 10)	145,375,506	140,943,585
Amortisation of intangible assets (note 11.1)	6,818,155	8,686,735
	<u>238,366,683</u>	<u>218,180,087</u>

28 Operating leases

There are no non-cancellable operating lease contracts. Whilst many operating lease contracts have notice periods for cancellation ranging up to 6 months, there are no minimum funding commitments under these contracts due to advance payments.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

Bangladesh Branches

	2013 BDT	2012 BDT
29 Other operating expenses		
Charitable donation	10,841,482	4,456,702
Subscription of corporate member fees	2,439,441	5,155,873
Training expenses	84,151,040	50,497,596
Entertainment expenses	48,840,586	25,429,508
Staff entertainment expenses	9,851,666	5,027,947
Outsource service cost	86,812,783	59,859,436
Security expenses	112,435,679	69,386,381
Staff recruitment costs	2,899,103	3,705,019
Transportation and conveyance expenses	28,027,537	20,239,979
Staff uniform	3,040,464	3,858,115
Generator and motor vehicles fuel and other expenses	9,339,923	12,187,204
Other office expenses	119,579,175	107,090,384
	<u>518,258,879</u>	<u>366,894,144</u>

	2013	2012
30 Tax		
Profit before tax	9,418,772,454	9,528,713,812
Notional tax on profit before tax, calculated at the rates of statutory tax rate @ 42.50%	4,002,978,293	4,049,703,370
Excess tax provision in the previous year	(1,003,195)	(3,172,083)
Excess profit tax	-	-
Tax effect on non-allowable expenses	(205,549,267)	(309,383,565)
	<u>3,796,425,831</u>	<u>3,737,147,722</u>

	2013	2012
31 Capital adequacy		
Total Risk Weighted Assets (RWA) as on 31 December	102,308,149,049	104,551,663,490
10% of RWA under Basel II	10,230,814,905	10,455,166,349
Required capital: The higher of 10% of RWA or BDT4 billion	10,230,814,905	10,455,166,349

Actual capital maintained		
Tier I		
Fund deposited with Bangladesh Bank	2,890,631,697	2,976,054,214
Retained earnings	17,324,395,147	16,291,576,197
Actuarial loss	(34,207,625)	(11,985,175)
Deferred tax assets on specific provision as per the Bangladesh Bank guideline	(37,110,611)	(41,470,468)
	20,143,708,608	19,214,174,768

Tier II		
General provision	2,348,132,019	2,249,212,182
Unrealized interest on amortisation of HTM securities - 50%	63,218,730	35,396,614
Unrealized interest on revaluation of HFT securities - 50%	27,026,299	1,512,568
	2,438,377,048	2,286,121,364
	<u>22,582,085,656</u>	<u>21,500,296,132</u>
	<u>12,351,270,751</u>	<u>11,045,129,783</u>

	2013	2012
Surplus		
% of Capital adequacy required		
Tier -I	5%	5%
Total	10%	10%

	2013	2012
% of Capital adequacy maintained		
Tier -I	19.69%	18.38%
Total	22.07%	20.56%

	2013 BDT	2012 BDT
32 Cash and cash equivalents		
Cash in hand	1,782,308,548	1,521,110,791
Balance with Bangladesh Bank	14,526,580,927	8,936,568,670
Balance with other banks and financial institutions	1,678,251,454	7,209,575,827
Money at call and short notice	1,350,000,000	490,000,000
Prize bond	1,826,000	1,671,500
91 days T-bills	120,477,179	150,205,998
30 days Bangladesh Bank bills	1,599,461,946	999,550,769
	<u>21,058,906,054</u>	<u>19,308,683,555</u>

33 Related party transaction

The Bank, not being incorporated in Bangladesh, operates in Bangladesh under the banking licence issued by Bangladesh Bank and therefore the key management personnel of the Bank for the purposes of BAS 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.

33.1 Transactions with key management personnel

There were no transaction between the Bank and the key management personnel of the Bank in 2013 (2012: BDT nil).

33.2 Transactions, arrangements and agreements involving key management personnel

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. Here, key management personnel refers to HSBC officials located outside Bangladesh who do qualify as related party under BAS 24.

The disclosure of the year end balance is considered to be the most meaningful information to represent transactions during the year. The outstanding balances includes loans made to or deposits by the bank and arose in the ordinary course of business and are on substantially the same terms, including interest rates and security, as for comparable transactions with third party counterparties. Interest income received by the Bank from these entities during 2013 amounted to BDT 690,890 (2012: BDT 319,806) and interest expense paid to these entities during 2013 amounted to BDT 1,314,101 (2012: BDT 4,523,506), both of which is included in the net interest income disclosed in the profit and loss account.

33.3 Transactions with other related parties of the Bank

The Bank provides certain banking and financial services and administrative services to the Offshore Banking Unit (OBU) of HSBC operating in Bangladesh under the banking licence issued by Bangladesh Bank. As at year end the balance with the OBU is disclosed in note 11, Other assets.

The disclosure of the year end balance is considered to be the most meaningful information to represent transactions during the year. The outstanding balance includes loans made by the Bank to the OBU. These transactions arose in the ordinary course of business and are on substantially the same terms, including interest rates and security, as for comparable transactions with third party counterparties. Net interest income received by the Bank from the OBU in 2013 amounted to BDT 20,801,919 (2012: BDT 22,765,223) which is included in the net interest income disclosed in the profit and loss account.

Operating expenses incurred by the Bank for the operations of the Bank and OBU are apportioned to each entity on the basis of total operating income and reported in the profit and loss account. Income tax assessed for the Bank and the OBU are paid by the Bank and the element relating to the OBU is recharged back to the OBU as disclosed in note 14.9, Provision for tax net of advance tax paid. The Bank does not charge the OBU any fees for the provision of administrative services.

33.4 Transactions with post employment benefit plans

The Bank has two post employment benefit schemes, the nature of which is disclosed in note 4.18, Employee benefits. There were no balances payable to these schemes or due from these schemes to the Bank as at the end of 2013 (2012: BDT nil). The total contribution to these schemes in 2013 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 2013 the provident fund had placed deposit of BDT 191,009,389 (2012: BDT 143,139,759) and the gratuity fund had placed deposits of BDT 96,583,697 (2012: BDT 84,485,107) 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, with the exception that from 28 August 2012 the interest rate paid on these deposits was agreed at 11% from 4.7%. Interest expense incurred by the Bank on deposits placed by the provident fund in 2013 amounted to BDT 18,420,014 (2012: BDT 6,040,092) and on deposit placed by gratuity fund in 2013 amounted to BDT 9,754,429 (2012: BDT 3,764,352), both of which is included in the interest expense disclosed in the profit and loss account.

34 Events after the balance sheet date

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

35 General

35.1 Core risk management

BRPD circular no.17 (7 October 2003) and BRPD circular no.4 (5 March 2007) 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.

35.1.1 Credit risk

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

- ▶ The Group credit risk policy framework
- ▶ Governance and authorities
- ▶ Risk appetite and evaluation of facilities
- ▶ Key lending constraints, higher risk sectors and sustainability risk
- ▶ Risk rating systems

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

Bangladesh Branches

- ▶ 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 Committee (RMC) comprising all the members of the Asset and Liability Management Committee (ALCO) and other risk related function heads to manage various risks within the bank including the 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.

35.1.2 Asset liability management risk

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

- | | |
|-------------------------------|---|
| ▶ Mr. Andrew Tilke (Chairman) | Chief Executive Officer |
| ▶ Mr. Steve Ball (Secretary) | Chief Financial Officer |
| ▶ Mr. Ahmed Saiful Islam | Chief Operating Officer |
| ▶ Mr. Mahbub Ur Rahman | Corporate Banking Head |
| ▶ Mr. Andrew Tilke | Head of Retail Banking & Wealth Management (Acting) |
| ▶ Mr. Bashar M Tareq | Head of Global Markets |
| ▶ Mr. Johnson Ks Chang | Chief Risk Officer |

The ALCO's primary function is to formulate policies 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, the Banks' liquidity position, capital adequacy, balance sheet risk, interest risk and makes necessary changes in its mix as and when required.

The Bank has a Group specified liquidity and funding ratio to maintain 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 behaviour patterns of liquidity requirements. The Bank has an approved Liquidity Contingency Plan (LCP) which is reviewed and updated on an annual basis by the ALCO. All regulatory requirements including CRR, SLR and RWA are reviewed by ALCO.

35.1.3 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, forward and options. In an effort to ensure such risks are mitigated and dealt with caution and higher authorities consent, Bangladesh Bank has issued a guideline for foreign exchange transactions in 2009. The Bank has a Functional Instruction Manual (FIM) covering foreign exchange risk policies and investment policy. The Bank has also developed different strategies to handle foreign exchange risk by setting limits on net open positions by currencies, mismatch limits by currency and time buckets of forward foreign exchange transactions, overall gross limits for forward (FWD) transaction, maximum loss limits per day and per month, as well as Value at Risk (VAR) limits which are measured and monitored on a daily basis.

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

As at 31 December 2013 the Bank has one unadjusted entry exceeding three months, as a result, in accordance with (FEPD) circular No. 677 (13 September 2005) required provisions on nostro balances are duly maintained.

35.1.4 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 safeguard the bank's resources, produce reliable financial reports and comply with laws and regulations. Effective internal control also reduces the possibility of significant errors and irregularities and assists in their timely detection when they do occur. According to the Group Policy Statement (GPS), the Bank is required 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 the 'Internal Control and Compliance' the Bank has prepared and implemented appropriate guidelines. In addition, the Group has robust manuals, policy, procedures, entitled Global Standards Manual (GSM), Functional Instruction Manual (FIM), Business Instruction Manual (BIM) and the Compliance Officer's Handbook, which brings together all the standards and principles we use in the conduct of our business, whatever its location or nature.

The Global Internal Audit (GBL INA) function, which is centrally controlled, provides independent assurance in respect of the design and operating effectiveness of the risk management and control frameworks across the Group, focusing on the areas of greatest risk to HSBC using a risk based approach. In country executive management is responsible for ensuring that recommendations made by the internal audit function are implemented within an appropriate and agreed timetable. In brief, the internal audit, as a tertiary control function, focuses on risks with a global perspective and on the design and effectiveness of primary and secondary controls, carrying out oversight audits of the Bank via the sampling of global/regional control frameworks, themed audits of key or emerging risks and project audits to assess major change initiatives.

35.1.5 Prevention of money laundering and terrorist financing

HSBC as one of the leading member of the 'Wolfsberg Group of Banks' (the international Anti-Money Laundering (AML) and Counter-Terrorist Financing (CTF) standard setting body) has very firm policy and practices to combat money laundering and terrorist financing throughout its operations across the world. AML and CTF Policies are embedded in the Bank's standards manuals and HSBC has a specific Global Policy and Principles (GPP); which are approved by the Board of Directors of HSBC.

In line with Global standards and local Money Laundering Prevention Act 2012, Anti-Terrorism (Amendment) Act, 2013 and Bangladesh Bank Guidance notes - the Bank also has a comprehensive AML and CTF Policy which is revised time-to-time and local CEO's formal endorsement is taken on an annual basis. HSBC has robust 'Know Your Customer' and transaction monitoring procedures and automated systems that are under dual control and continuous surveillance of banks both local and global compliance and internal audit teams. The Bank has mandatory on line training modules on AML and CTF which all staff have to complete with pass marks and annual refresher needs to be done by all customer facing and relevant processing staff. All returns and reports were sent to the regulator on time and there have been no penalty and censures in this regard. In 2013 all regulatory inspection reports were satisfactory and the Bank's AML/CTF standards were found to be high.

35.1.6 Information technology

The Bank has its IT operation and software delivery department for the support, service and software development of IT systems where the core system is centralised in Hong Kong. Though much of the Bank's systems are built for the Group purpose but there are some sophisticated applications developed locally or purchased from third party vendors as and when required following a Risk Based Project Management (RBPM) methodology. IT department has Performance Level Agreement (PLA) and Service Level Agreement (SLA) with global businesses and functions for service quality assurance which describes all the IT services with target service up time and response time for troubleshooting or any IT related requests. The IT department provides monthly reports to Chief Operating Officer (COO) dashboard for the senior management which covers the following:

- ▶ The status of major IT projects
- ▶ Major incident report
- ▶ IT performance analysis against PLA
- ▶ IT expenses and cost savings
- ▶ Update on major IT issues/quality initiatives

IT security wing reviews and ensures appropriate controls and security standards are in place and are in compliance with Group IT and regulatory requirements. IT security also performs risk assessment on various IT systems and processes to mitigate operational risks. Moreover, periodic training and various initiatives are taken to increase IT security awareness among all staff. The Bank has a robust Business Recovery Plan (BRP) in place to ensure business continuity in case of any major disaster. This plan is reviewed and tested at least once in a year.

35.2 Audit Committee

According to BRPD circular no.12 (23 December 2002), all banks are advised to constitute an audit committee comprising members of the Board. The audit committee will assist the Board in fulfilling its oversight responsibilities including implementation of the objectives, strategies and overall business plans set by the Board for effective functioning of the Bank. The committee will review the financial reporting process, the system of internal control and management of financial risks, the audit process, and the Bank's process for monitoring compliance with laws and regulations and its own code of business conduct.

The Bank, being a foreign bank, does not have a local board of directors from whom to select an audit committee, however, the Bank has received a dispensation from Bangladesh Bank on 19 December 2006 with regards to this requirement. The Bank has an internal audit department. In addition to this the Bank is subject to audit by the internal auditors of HSBC and the internal auditors of the Group.

The Group has an audit committee, comprising four non executive directors of the Group, which meets on a regular basis with the senior management of the Group, and with the internal and external auditors to consider and review the nature and scope of the reviews and the effectiveness of the systems of internal control and compliance as well as the financial statements of the Group. All audit reports issued by local internal and external auditor and all inspection/audit reports issued by Bangladesh Bank are sent to the audit committees of HSBC and the Group.

35.3 Disclosure on risk based capital (Basel II)

To comply with international best practices and to make the Bank's capital more risk sensitive as well as to build the banking industry more shock absorbent and stable, Bangladesh Bank implemented Basel II reporting from 2010. As per the directive of Bangladesh Bank all scheduled banks are now required to report risk based capital adequacy for banks under Basel II. All scheduled banks are also required disclosures in both qualitative and quantitative terms. As a branch of the world's leading financial services institutions, HSBC Bangladesh has made disclosures as per pillar-III, market discipline of the revised capital adequacy framework of Bangladesh Bank. (For details see annexure-F).

35.4 Exchange Rates

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

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

Bangladesh Branches

	<u>2013</u> <u>BDT</u>	<u>2012</u> <u>BDT</u>
USD 1 =	77.6301	80.0070
ACU 1 =	77.6301	80.0070
HKD 1 =	10.0110	10.3212
SGD 1 =	61.1959	65.3785
GBP 1 =	127.8063	129.3673
AUD 1 =	68.9006	82.9553
EUR 1 =	106.8307	105.7813
CHF 1 =	87.0732	87.6213
JPY 1 =	0.7381	0.9298
CAD 1 =	72.4736	80.2800
NOK 1 =	12.6932	14.3141
AED 1 =	21.1365	21.7825
SAR 1 =	20.6978	21.3329
CNY 1 =	12.8065	12.8299
DKK 1 =	14.3201	-

35.5 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 2013:

Long-term AAA
Short-term ST-1

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

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

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



Andrew Tilke
Chief Executive Officer, Bangladesh



Steve Ball
Chief Financial Officer, Bangladesh

Dhaka, 9 February 2014