

# Notes to the Financial Statements

As at and for the year ended 31 December 2008

## 1 Background

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

The Bank has established an Islamic Banking Branch (Amanah branch) from 26 February 2004, on Islamic Shariah Principles based banking which is governed by the HSBC Shariah Supervisory Committee in Dubai, after obtaining its license from Bangladesh Bank on 31 August 2003.

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

## 2 Principal activities

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

**2.1 Personal Banking:** With nine branches and one sub-branch, 28 ATMs and nine Customer Service Centres in Dhaka, Chittagong and Sylhet, HSBC offers a wide range of personal banking and related financial services including current and savings accounts, personal loans, time deposits, traveller's cheques and inward and outward remittances.

**2.2 Commercial Banking:** Commercial banking is a traditional strength of HSBC because of our international reach and a wide range of financial services and products. 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.

As part of business expansion plan the Bank also established a Customer Service Centre to serve the Small and Medium Enterprise (SME) business at Chawkbazar in Old Dhaka.

**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 relationship 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 Trade & Supply Chain (formerly "Trade Services"):** 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 established three Business Development Offices in Comilla, Mongla and Adamjee export processing zone focused on handling of export-import documents. As a result the Bank now have a presence in five export processing zone's in Bangladesh, including Chittagong export processing zone and Dhaka export processing zone.

**2.6 Payments and Cash Management:** HSBC is one of the leading service providers of payments and related services to financial institutions, corporate and personal customers in Bangladesh. Underpinned by the Bank's our extensive 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 into the 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.<sup>L</sup>

**2.7 Custody and Clearing:** HSBC provides custody and clearing service; the network uses 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. HSBC Bangladesh currently offers Amanah Current Account and Amanah Import Finance.

### 3 Basis of preparation

The financial statements of the Bank are prepared on the basis of a going concern and represent the financial performance and financial position of the branches in operation within Bangladesh which includes the Amanah branch. A separate set of financial statements are prepared for the OBU.

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.

The Amanah branch is separate from the conventional banking branches and the Bank maintains a separate set of accounts for this branch which is separate from the conventional banking branches to conform to the standard adopted by Financial Accounting and Auditing Organization for Islamic Financial Institutions. The separate balance sheet and profit and loss account for the Amanah branch is presented in Note 32.

### 4 Significant accounting policies

#### 4.1 Foreign currencies

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 Bangladesh Taka (BDT) which is the Bank's functional and presentation currency.

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 Use of estimates and judgments

The preparation of financial statements requires the Bank to make certain estimates and to form judgments about the application of accounting policies which may affect the reported amount of assets, liabilities, income and expenses. The most significant areas where estimates and judgments have been made are on provisions for loans and advances.

#### 4.3 Loans and advances to customers

Loans and advances to customers are stated in the balance sheet on a gross basis.

#### 4.4 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.5 (5 June 2006). The guidance in the Circular follows a formulaic approach where by specified rates are applied to the various categories of loans as defined in the Circular. The provisioning rates required, as updated by BRPD Circular No. 05 (29 April 2008) are as follows:

##### General provision on loans and advances:

On unclassified general loans and advances/ investments	1.00%
On unclassified small and medium enterprise financing	1.00%
On unclassified loans/investment for housing finance and on loans for professionals	2.00%
On unclassified consumer financing other than housing finance and loans for professionals	5.00%
On special mention account	5.00%

##### Specific provision on loans and advances:

On substandard loans and advances / investments	20.00%
On doubtful loans and advances / investments	50.00%
On bad/loss and advances /investments	100.00%

BRPD Circular No.5 (5 June 2006) also provides scope for further provisioning based on qualitative judgments. In these circumstances impairment losses are calculated on individual loans considered individually significant based on which

specific provisions are raised. If the specific provisions assessed under the qualitative methodology are higher than the specific provisions assessed under the formulaic approach above, the higher of the two is recognised in liabilities under Provisions for loans and advances” with any movement in the provision charged/released in the profit and loss account.

#### **4.5 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 Banks 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 follow-up on the recovery efforts of these written off loans and reports to management on a periodic basis. Written off loans and advances are reported to the Credit Information Bureau (CIB) of Bangladesh Bank.

#### **4.6 Provisions on balances with other banks and financial institutions (Nostro accounts)**

Provisions for unsettled transactions on nostro accounts made are reviewed at each balance sheet date by management and certified by our external auditors in accordance with Bangladesh Bank Foreign Exchange Policy Department (FEPD) Circular No. 677 (13 September 2005).

#### **4.7 Provisions for off balance sheet exposures**

BRPD Circular No.10 (18 September 2007) requires a general provision for off balance sheet exposures to be calculated at 1% (2007: 0.50%) on all off balance sheet exposures as defined in BRPD Circular No.10 (24 November 2002). Accordingly we have 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

#### **4.8 Investments**

In accordance with BRPD Circular No.15 (31 October 2005) treasury bills and bonds which were held to comply with the Statutory Liquidity Requirement (SLR) by the Bank were classified as Held to Maturity (HTM) and revalued on the basis of marking to market at the year end. Any gains or losses on revaluation were recognised in other reserve as a part of equity. Treasury bills and bonds which were held in excess of the SLR by the bank were classified as held for trading (HFT) and were revalued on the basis of marking to market. Any gains or losses on revaluation were recognised in the profit and loss account.

However following the issuance of DOS Circular No. 5 (26 May 2008). Treasury securities held for SLR compliance may now be classified as either HTM or HFT. Whilst there is no change in the accounting treatment of HTM securities, HFT securities are now revalued on the basis of marking to market and at year end any gains or losses on revaluation of securities which have not matured as at the balance sheet date are recognized in other reserves as a part of equity.

All investments in shares are revalued at the year-end. Unquoted shares 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.

#### **4.9 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.

#### **4.10 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 recognized 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 fittings	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 years	33% pa

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

#### **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 and 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.

#### **4.12 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. <sup>L</sup> 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 Banking Companies Act 1991, as amended by BRPD Circular No.1(08 January 1996), BRPD Circular No.10 (24 November 2002), BRPD Circular No.10 (30 March 2003), BRPD Circular No.3 (5 September 2004), BRPD Circular No.7 (28 August 2006), BRPD Circular 5 (14 May 2007), and BRPD Circular No. 12 (05 November 2007) banks incorporated outside Bangladesh are required to deposit with Bangladesh Bank the higher of BDT 2bn (2007: BDT 1bn) 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 30 demonstrates the Bank’s compliance with the overall capital requirements as disclosed above.

#### **4.15 Off setting financial assets and financial liabilities**

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

#### **4.16 Cash and cash equivalents**

For the purpose of the cash flow statement, cash and cash equivalents include highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are 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.

#### **4.16 Revenue Recognition**

##### ***Interest income***

Interest income for all loans and advances are recognised in the profit and loss account using the effective interest method. The effective interest method is a way of calculating the amortised cost of a financial asset and of allocating the interest income over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or, where appropriate, a shorter period, to the net carrying amount of the financial asset.

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 accordance with BRPD Circular No.5 (5 June 2006) interest accrued on Special Mention loans, Sub-standard loans, Doubtful loans and Bad/loss loans are credited to an "Interest Suspense Account" which is included within "Other liabilities". Interest received on Special Mention loans, 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 expense*

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

#### *Commission & 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:

- a) income earned on the execution of a significant act is recognised as revenue when the act is completed
- b) income earned from services provided is recognised as revenue as the services are provided
- c) 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.

### **4.17 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 the bonus is payable three years after it is awarded. 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" on a discounted basis 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 approved by the National Board of Revenue.

Under the PF, the Banks 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 Banks' 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 schemes' actuaries using the Projected Unit Credit Method. 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.

The defined benefit liability recognised in the balance sheet represents the present value of defined benefit obligations adjusted for unrecognised past service costs and reduced by the fair value of plan assets. Any net defined benefit surplus is limited to unrecognised past service costs plus the present value of available refunds and reductions in future contributions to the plan.

#### 4.19 Operating expenses

- a) Depreciation is discussed in the accounting policies section on Fixed Assets.
- b) Rental payments are discussed in the accounting policies section on Finance and Operating leases.
- c) Salaries and allowances are discussed in the accounting policies section on Employee Benefits.
- d) Advertising costs are amortised over the period during which the benefit of the advertising accrues.
- e) 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 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.

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).

Deferred tax relating unrealized surplus on the revaluation of held to maturity (HTM) and held for trading (HFT) securities are recognised directly in other reserves as a part of equity and is subsequently recognised in the profit and loss account on maturity of the security.

	<b>2008</b>	<b>2007</b>
	<b><u>BDT</u></b>	<b><u>BDT</u></b>
<b>5 i. Cash in hand (including foreign currencies)</b>		
Local currency	552,383,976	337,157,562
Foreign currencies	<u>310,545,026</u>	<u>623,494,365</u>
	862,929,002	960,651,927
 <b>ii. Balance with Bangladesh Bank and its agent bank (including foreign currencies)</b>		
Bangladesh Bank - Local currency	2,593,195,659	2,259,272,639
Bangladesh Bank - Foreign. Currencies. clearing A/cs	<u>3,092,698,250</u>	<u>2,668,173,491</u>
	<u>5,685,893,909</u>	<u>4,927,446,130</u>
	<u><u>6,548,822,911</u></u>	<u><u>5,888,098,057</u></u>

#### iii. Cash Reserve Ratio and Statutory Liquidity Reserve

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

- a) BCD Circular No.13                                   24 May 1992
- b) BRPD Circular No.12                                 20 September 1999
- c) BRPD Circular No.22                                6 November 2003
- d) BRPD Circular No.11& 12                           25 August 2005

According to BRPD Circular No.12 (25August 2005), CRR requirement is to be complied with on a bi-weekly basis during which period the minimum CRR requirement is 5% on average and no less than 4% on any one day.

Set out below in Note 5 (iv) we demonstrate compliance with the CRR and SLR based on period end cash balances and in Note 5 (v) we demonstrate compliance with the CRR and SLR based on average cash balances during the last two weeks of the financial year ending 31 December 2008.

iv. Cash Reserve Ratio (CRR): 5% of average demand and time liabilities:

	2008 BDT	2007 BDT
Required reserve	2,736,390,150	2,129,133,850
Actual reserve held with Bangladesh Bank ( Note 5 (ii) )	2,593,195,659	2,259,272,639
Surplus/ (deficit)	(143,194,491)	130,138,789

On 31 December 2008 based on the daily minimum CRR requirement of 4%, the Bank's requirement was BDT2,189,112,120 against which the actual reserve was BDT2,593,195,659, therefore the Bank's surplus for the day was BDT404,083,539.

Statutory liquidity Reserve (SLR): 18% of average demand and time liabilities:

Required reserve	9,851,004,540	7,664,881,860
Actual reserve held with Bangladesh Bank	13,638,190,351	8,305,632,607
Surplus	3,787,185,811	640,750,747

v. Cash Reserve Ratio (CRR): 5% of average demand and time liabilities:

Required reserve	2,736,390,150	2,129,133,850
Bi-weekly average reserve held with Bangladesh Bank	2,866,125,454	2,340,980,776
Surplus	129,735,304	211,846,926

6 Balance with other banks and financial institutions

In Bangladesh:

Current account

National Bank Ltd, Dhaka - Kawran Bazaar	55,499	56,419
Islami Bank Bangladesh	29,746,753	13,364,876
AB Bank Ltd, Dhaka	1,007,781	1,017,162
Sonali Bank Local Office	599,250	599,500
Islami Bank Collection Account	7,983,284	(5,019,323)
IFIC Bank Collection Account	21,143	-
	39,413,710	10,018,634

Short term deposit

National Bank Ltd. - STD Account, Dilkusha Branch	11,518,500	1,265,311
Uttara Bank Ltd. - STD account	3,738,622	3,741,122
Sonali Bank - STD Deposit Account	3,853,714	8,272,732
Prime Bank Ltd. - STD account	3,765,861	3,601,763
National Bank Ltd. - STD Account, Kawran Bazaar Branch	24,541,083	23,951,487
IFIC Bank Ltd. - STD Account	449,361	-
	47,867,141	40,832,415
	87,280,851	50,851,049

Outside Bangladesh:

Current account

HSBC Hong Kong - HKD	12,821,173	2,484,480
Global ATM settlement A/C with HSBC Hong Kong - HKD	4,636,826	7,289,336
USD settlement A/C with HSBC Hong Kong	37,884,631	12,912,587
HSBC Japan (JPY)	(13,900,861)	4,105,436
HSBC Singapore (SGD)	1,388,478	1,306,890
HSBC India - ACU	67,161,225	109,375,842
HSBC Republic Bank ( SUISSE), Geneva - CHF	1,595,277	893,658
HSBC Trinkaus & Burkhardt, Germany - EUR	251,342	10,059,722
HSBC Bank PLC, UK - GBP	34,230,779	355,416,349
HSBC Bank USA - USD	5,487,914	(436,267,399)
HSBC Pakistan - ACU	48,917,032	48,450,889
HSBC Sri Lanka - ACU	4,933,510	2,070,859
HSBC Bank Australia TT A/C- AUD	2,890,215	(111,669)
HSBC Bank Australia DD A/C - AUD	(1,541,138)	(257,434)
HSBC Bank Canada - CAD	1,300,964	610,702
Nordea Bank Norway - NOK	471,336	1,055,751
HSBC Bank PLC - EUR	47,456,492	157,727,705
HSBC Dubai -USD	6,297,345	47,321,620
HSBC Dubai -AED	709,616	-
HSBC Bank PLC - USD (overnight investment)	-	1,028,550,000
HSBC Hongkong - GBP (overnight investment)	234,707,190	-
HSBC Hongkong - EUR (overnight investment)	380,711,370	-
(For detail see Annexure -B)	878,410,716	1,352,995,324
	965,691,567	1,403,846,373

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

Current account (including FCY Nostro)	917,824,426	1,363,013,958
Short term deposit account	47,867,141	40,832,415
	<u>965,691,567</u>	<u>1,403,846,373</u>

**6.2 Maturity grouping of balance with other banks and financial institutions**

Payable on demand	-	-
Payable within one month	965,691,567	1,403,846,373
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>965,691,567</u>	<u>1,403,846,373</u>

**7 Money at call and short notice**

**With banking Companies:**

Standard Chartered Bank	-	400,000,000
Citibank, N.A.	-	400,000,000
Eastern Bank Ltd.	50,000,000	50,000,000
Dhaka Bank Ltd	45,000,000	-
Sonali Bank Ltd.	250,000,000	-
Southeast Bank Ltd	40,000,000	-
Mercantile Bank Ltd	50,000,000	-
State Bank of India	100,000,000	-
Commercial Bank Ceylon	220,000,000	-
Bank Asia Ltd	30,000,000	-
Agrani bank	120,000,000	-
	<u>905,000,000</u>	<u>850,000,000</u>

**8 Investments**

**Held to Maturity Securities (HTM)**

28 day Treasury bills	-	348,597,124
91 day Treasury bills	-	546,780,716
182 day Treasury bills	-	793,534,431
364 day Treasury bills	971,616,652	-
91 day Bangladesh Bank bills	-	397,598,593
5 year Government Bonds	375,551,605	366,385,477
	<u>1,347,168,257</u>	<u>2,452,896,341</u>

**Held for Trading Securities (HFT)**

91 day Treasury bills	5,950,919,473	-
182 day Treasury bills	1,960,951,637	-
364 day Treasury bills	1,075,167,846	-
	<u>8,987,038,956</u>	<u>-</u>

**Prize Bonds**

<u>1,556,710</u>	<u>749,700</u>
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**Government Securities ( HTM, HFT, Prize Bonds)**

<u>10,335,763,923</u>	<u>2,453,646,041</u>
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**Other Investment**

Shares of Central Depository Bangladesh Limited	6,000,000	6,000,000
	6,000,000	6,000,000
	<u>10,341,763,923</u>	<u>2,459,646,041</u>

Note 4.8 indicates a change in accounting policy as gains or losses on revaluation of HFT securities were previously recognised in the profit and loss account, but now gains or losses on revaluation of HFT securities which have not matured as at the balance sheet date are recognised in Other Reserve as a part of equity. In accordance with BAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, Para 19(b) and 22(b) an entity is required to apply a change in accounting policy retrospectively by adjusting the opening balance of each affected component of equity for the earliest period presented as if the new accounting policy had always been applied. As we did not hold any HFT securities as at 31 December 2007, no retrospectively adjustment is required.



	<b>2008</b>	<b>2007</b>
	<b><u>BDT</u></b>	<b><u>BDT</u></b>
<b>8.1 Maturity grouping of investments</b>		
Payable on demand	1,556,710	4,417,525
Payable within one month	3,040,165,692	1,289,884,630
More than one month but less than three months	4,393,350,079	99,296,504
More than three months but less than one year	2,535,889,837	693,661,905
More than one year but less than five years	364,801,605	366,385,477
More than five years	6,000,000	6,000,000
	<b><u>10,341,763,923</u></b>	<b><u>2,459,646,041</u></b>
<b>9 Loans and advances</b>		
Loans, cash credits, overdrafts:		
<b>In Bangladesh:</b>		
Staff loans	399,847,362	302,983,109
Home mortgages loans	670,887,323	690,701,859
Car loans	1,337,479,223	1,391,395,790
Personal loans	8,010,590,845	6,129,970,185
Overdraft for Retail	566,554,826	388,135,625
Overdraft for Corporate	2,166,597,221	2,037,419,148
Term loans	9,383,460,163	10,106,971,434
Import loans	9,373,026,044	11,319,984,493
	<b><u>31,908,443,007</u></b>	<b><u>32,367,561,643</u></b>
<b>Outside Bangladesh:</b>	-	-
	31,908,443,007	32,367,561,643
Bills purchased and discounted (Note 9.10)	2,394,301,264	1,440,139,218
	<b><u>34,302,744,271</u></b>	<b><u>33,807,700,861</u></b>
<b>9.1 Maturity grouping of loans and advances including bills purchased and discounted</b>		
Payable on demand	5,632,307,391	3,881,875,452
Payable within one month	3,928,206,574	4,119,662,419
More than one month but less than three months	7,103,221,298	8,963,764,332
More than three months but less than one year	5,289,551,643	5,454,240,575
More than one year but less than five years	11,497,721,547	10,832,334,605
More than five years	851,735,818	555,823,478
	<b><u>34,302,744,271</u></b>	<b><u>33,807,700,861</u></b>
<b>9.2 Analysis of significant concentration of loans and advances including bills purchased and discounted</b>		
Advances to allied concerns of Directors	-	-
Advances to the Chief Executive Officer	-	-
Advances to other seniors executives and staff of the Bank	399,847,362	302,983,109
Advances to customers' group	15,587,844,909	13,302,821,820
Industrial advances	18,315,052,000	20,201,895,932
	<b><u>34,302,744,271</u></b>	<b><u>33,807,700,861</u></b>
<b>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</b>		
Number of the clients	82	93
Amount of outstanding advances	11,278,311,908	16,925,854,051
Amount of classified advances	-	-
<b>9.4 Cash collateral against total outstanding loans and advances as at 31 December</b>	<b><u>2,812,909,005</u></b>	<b><u>2,764,835,198</u></b>
<b>9.5 Loans and advances including bills purchased and discounted</b>		
Loans	31,569,592,224	31,382,146,088
Overdrafts	2,733,152,047	2,425,554,773
	<b><u>34,302,744,271</u></b>	<b><u>33,807,700,861</u></b>

## 9.7 Unclassified, classified, doubtful and bad loans

Unclassified:		
Standard	33,535,874,314	33,242,911,794
Special Mention Account	67,510,090	131,196,067
Classified:	33,603,384,404	33,374,107,861
Substandard		
Doubtful	85,882,690	8,489,000
Bad/loss	172,407,429	311,000
	441,069,748	424,793,000
	<u>34,302,744,271</u>	<u>33,807,700,861</u>

## 9.8 Particulars of loans and advances

i. Loans considered good in respect of which the banking company is fully secured;	27,377,724,228	29,142,338,090
ii. Loans considered good against which the banking company holds no security other than the debtor's personal guarantee;	6,225,660,176	4,231,769,771
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 thereagainst;	-	-
	<u>33,603,384,404</u>	<u>33,374,107,861</u>
v. Loans due by directors or officers of the banking company or any of these either separately or jointly with any other persons;	<u>399,847,362</u>	<u>302,983,109</u>
vi. Loans due from companies or firms in which the directors of the banking company have interests as directors, partners or managing agents or in case of private companies as members;	-	-
vii. Maximum total amount of advance including temporary advance made at any time during the year to directors or managers or officers of the banking companies or any of them either separately or jointly with any other person;	<u>399,847,362</u>	<u>302,983,109</u>
viii. Maximum total amount of advances, including temporary advances granted during the year to the companies or firms in which the directors of the banking company have interest as directors, partners or managing agents or in case of private companies as members;	-	-
ix. Due from banking companies	-	-
x. Classified loans and advances		
a. Classified loans and advances on which no interest is credited to income	<u>699,359,867</u>	<u>433,593,000</u>
b. Provision on classified loans and advances (For movement see note 14.3)	<u>597,310,009</u>	<u>431,878,561</u>
c. Interest creditable to the interest suspense account (Note 14.5)	<u>304,082,247</u>	<u>185,108,514</u>
xi. Cumulative amount of written off loans		
Opening balance	89,818,168	73,974,742
Amount written off during the year	63,425,091	15,843,426
	<u>153,243,259</u>	<u>89,818,168</u>
The amount of written off loan for which law suit has been filed	<u>92,966,828</u>	<u>29,541,737</u>
<b>9.9 Geographical analysis of loans and advances</b>		
Dhaka Division	27,151,421,979	27,005,646,834
Chittagong Division	6,568,425,345	6,545,289,202
Sylhet Division	582,896,947	256,764,825
	<u>34,302,744,271</u>	<u>33,807,700,861</u>
<b>9.10 Bills purchased and discounted</b>		
In Bangladesh	854,769,028	128,039,908
Outside Bangladesh	1,539,532,236	1,312,099,310
	<u>2,394,301,264</u>	<u>1,440,139,218</u>

### 9.11 Maturity analysis of bills purchased and discounted

Payable within one month	1,554,367,069	745,490,860
More than one month but less than three months	678,067,782	617,913,810
More than three months but less than six months	161,866,413	76,734,548
More than six months	-	-
	<u>2,394,301,264</u>	<u>1,440,139,218</u>

### 10 Fixed assets including premises, furniture and fixtures

2008	Furniture & Fittings	Equipment	Lease hold Premises	Motor Vehicles	Computers	Total
<b>Cost</b>	<b>BDT</b>	<b>BDT</b>	<b>BDT</b>	<b>BDT</b>	<b>BDT</b>	<b>BDT</b>
Balance as at 01 January	142,123,566	274,170,045	-	38,324,584	153,369,848	607,988,043
Addition during the year	21,230,960	70,517,770	-	12,100,002	14,951,724	118,800,456
Disposals/adjustment	(26,693)	(189,593)	-	(4,091,643)	(2,513,000)	(6,820,929)
<b>Balance as at 31 December</b>	<b>163,327,833</b>	<b>344,498,222</b>	<b>-</b>	<b>46,332,943</b>	<b>165,808,572</b>	<b>719,967,570</b>
<b>Accumulated Depreciation</b>						
Balance as at 01 January	78,332,137	161,035,744	-	20,117,847	93,908,852	353,394,580
Charge for the Year	13,884,991	40,625,998	-	8,237,480	29,982,902	92,731,371
On disposals / adjustments	(16,877)	(179,768)	-	(4,086,018)	(2,513,000)	(6,795,663)
<b>Balance as at 31 December</b>	<b>92,200,251</b>	<b>201,481,974</b>	<b>-</b>	<b>24,269,309</b>	<b>121,378,754</b>	<b>439,330,288</b>
<b>Net book Value</b>	<b>71,127,582</b>	<b>143,016,248</b>	<b>-</b>	<b>22,063,634</b>	<b>44,429,818</b>	<b>280,637,282</b>
<b>2007</b>	<b>Furniture &amp; Fittings</b>	<b>Equipment</b>	<b>Lease hold Premises</b>	<b>Motor Vehicles</b>	<b>Computers</b>	<b>Total</b>
<b>Cost</b>	<b>BDT</b>	<b>BDT</b>	<b>BDT</b>	<b>BDT</b>	<b>BDT</b>	<b>BDT</b>
Balance as at 01 January	125,768,245	230,903,487	8,063,661	40,406,917	125,537,549	530,679,859
Addition during the year	17,550,994	44,329,255	(8,063,661)	8,571,000	30,716,724	93,104,312
Disposals/adjustment	(1,195,673)	(1,062,697)	-	(10,653,333)	(2,884,425)	(15,796,128)
<b>Balance as at 31 December</b>	<b>142,123,566</b>	<b>274,170,045</b>	<b>-</b>	<b>38,324,584</b>	<b>153,369,848</b>	<b>607,988,043</b>
<b>Accumulated Depreciation</b>						
Balance as at 01 January	66,194,909	127,449,034	201,592	23,919,083	69,030,775	286,795,393
Charge for the Year	12,873,569	34,280,270	(201,592)	6,852,097	27,700,936	81,505,280
On disposals / adjustments	(736,341)	(693,560)	-	(10,653,333)	(2,822,859)	(14,906,093)
<b>Balance as at 31 December</b>	<b>78,332,137</b>	<b>161,035,744</b>	<b>-</b>	<b>20,117,847</b>	<b>93,908,852</b>	<b>353,394,580</b>
<b>Net book Value</b>	<b>63,791,429</b>	<b>113,134,301</b>	<b>-</b>	<b>18,206,737</b>	<b>59,460,996</b>	<b>254,593,463</b>

Costs of BDT 45,820,000 ( 2007: BDT37,110,000), accumulated depreciation of BDT 23,876,834 ( 2007: BDT19,106,833) and net book value of BDT 21,943,166 (2007:BDT18,003,167) 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 values.

### 11 Other assets

#### Classification of other assets

#### a. Income generating other assets

Offshore Unit, Dhaka (USD141,753,666, 2007: USD nil)

	2008	2007
	BDT	BDT
	9,769,662,683	-
	<u>9,769,662,683</u>	<u>-</u>

#### b. Non-income generating other assets:

Offshore Unit, Dhaka (USD 4,954,956, 2007 :USD 143,684,320)

Stamp in hand

Deferred tax (Note 11.1)

Other debtors (Note 11.4)

Rent paid in advance

Other prepayments

Refundable deposits

Accrued interest on Bangladesh Bank Foreign Currency Capital and Clearing account

Interest on balance with Other Banks and Financial Institutions

Items in course of collection from other banks

Commission receivable from various banks for payment settlement through group bank

Encashment of PSP awaiting for reimbursement from Bangladesh Bank

Unrealised gain on foreign exchange contract

341,495,554	9,852,433,831
1,455,238	1,238,331
95,351,816	146,055,150
17,134,839	19,192,765
134,223,984	87,692,919
12,096,640	8,370,747
3,877,734	3,607,595
533,219	21,405,816
19,268,817	8,041,415
413,366,341	430,562,471
16,195,836	16,078,765
363,113,177	267,756,918
51,288,378	6,969,811
<u>1,469,401,573</u>	<u>10,869,406,534</u>
<u>11,239,064,256</u>	<u>10,869,406,534</u>

### 11.1 Deferred tax

Balance as at 01 January	146,055,150	3,746,000
(Charge)/Credit to p&l account (Note 11.2)	(22,919,170)	158,221,956
(Charge)/Credit to reserves (Note 11.3)	<u>(27,784,164)</u>	<u>(15,912,806)</u>
Balance as at 31 December	<u><u>95,351,816</u></u>	<u><u>146,055,150</u></u>

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

	Gratuity Scheme provision	Difference between Tax depreciation and Accounting depreciation	Specific provision on loans and advances	Total
	BDT	BDT	BDT	BDT
<b>2008</b>				
Balance as at 01 January	-	(1,992,694)	163,960,650	161,967,956
(Charge)/Credit to p&l account	-	<u>(2,441,920)</u>	<u>(20,477,250)</u>	<u>(22,919,170)</u>
Balance as at 31 December	<u>-</u>	<u><u>(4,434,614)</u></u>	<u><u>143,483,400</u></u>	<u><u>139,048,786</u></u>
<b>2007</b>				
Balance as at 01 January	6,791,280	(3,045,280)	-	3,746,000
(Charge)/Credit to p&l account	<u>(6,791,280)</u>	<u>1,052,586</u>	<u>163,960,650</u>	<u>158,221,956</u>
Balance as at 31 December	<u>-</u>	<u><u>(1,992,694)</u></u>	<u><u>163,960,650</u></u>	<u><u>161,967,956</u></u>

### 11.3 Deferred tax (charged)/credited to reserves

	Actuarial gains / (losses)	Unrealised surplus on revaluation of HTM Securities	Unrealised surplus on revaluation of HFT Securities	Total
	BDT	BDT	BDT	BDT
<b>2008</b>				
Balance as at 01 January	-	(15,912,806)	-	(15,912,806)
(Charge)/Credit to reserves	<u>33,860,779</u>	<u>(13,717,335)</u>	<u>(47,927,608)</u>	<u>(27,784,164)</u>
Balance as at 31 December	<u><u>33,860,779</u></u>	<u><u>(29,630,141)</u></u>	<u><u>(47,927,608)</u></u>	<u><u>(43,696,970)</u></u>
<b>2007</b>				
Balance as at 01 January	-	-	-	-
(Charge)/Credit to reserves	-	<u>(15,912,806)</u>	-	<u>(15,912,806)</u>
Balance as at 31 December	<u>-</u>	<u><u>(15,912,806)</u></u>	<u>-</u>	<u><u>(15,912,806)</u></u>

### 11.4 Other debtors

	2008 BDT	2007 BDT
Premises development account	130,330	-
Global ATM settlement	505,393	691,087
Security charges recoverable	9,972,162	13,669,817
Audit Fees - Cash incentive fees recoverable from Bangladesh Bank	102,000	2,151,000
Others	6,424,954	2,680,861
	<u><u>17,134,839</u></u>	<u><u>19,192,765</u></u>

### 12 Borrowings from other banks, financial institutions and agents

#### In Bangladesh:

Money market call borrowings	-	-
Money market term borrowings (Note 12.1)	821,329,508	165,359,821
Other deposits - Vostro account (Note 12.2)	<u>57,696,865</u>	<u>595,337,688</u>
	<u>879,026,373</u>	<u>760,697,509</u>

#### Outside Bangladesh:

	<u>-</u>	<u>-</u>
	<u><u>879,026,373</u></u>	<u><u>760,697,509</u></u>

#### 12.1 Term borrowing

Woori Bank	500,000,000	-
Foreign currency borrowing from Bangladesh Bank under export development funds	<u>321,329,508</u>	<u>165,359,821</u>
	<u><u>821,329,508</u></u>	<u><u>165,359,821</u></u>

**12.2 Other deposits - Vostro account**

PNC Bank N.A, New York	773,455	169,585
Prime Bank, Dhaka	1,460,848	1,528,685
Premier Bank, Dhaka	35,202	35,322
HSBC Bank PLC, London	13,375,924	19,964,434
Pubali Bank Limited, Dhaka	335,051	316,492
Bank of New York, New York	-	514,756,449
Bank of New York, Brussels	995,944	3,555,236
HSBC Fund Service, Hongkong	-	19,338,009
Saudi British Bank, Riyadh	1,297,774	810,574
Pershing LLC, New Jersey	38,817,054	34,830,468
Deutsche Bank AG, London	32,479	32,434
ABN AMRO Bank, London	573,134	-
	<b>57,696,865</b>	<b>595,337,688</b>

**12.3 Classification based on type of security**

Secured	-	-
Unsecured	879,026,373	760,697,509
	<b>879,026,373</b>	<b>760,697,509</b>

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

Payable on demand	57,696,865	595,337,688
Payable within one month	-	-
More than one month but less than three months	569,063,109	113,197,495
More than three months but less than one year	252,266,399	52,162,326
More than one year but less than five years	-	-
Over five years	-	-
	<b>879,026,373</b>	<b>760,697,509</b>

**13 Deposits and other accounts**

Current and other account:		
Current account/ Al - wadeeah current deposits	4,271,515,812	4,295,037,743
Foreign currency deposits	1,582,254,315	8,577,337,426
Sundry deposits	1,989,879,360	2,082,144,434
	7,843,649,487	14,954,519,603
Bills payable:		
Cashiers order issued	381,404,935	288,662,658
Drawings payable	169,830,237	214,726,978
	551,235,172	503,389,636
Saving deposits	8,605,863,282	8,023,002,672
Term deposits		
Short Term Deposits	9,402,673,470	5,232,411,772
Term Deposits	24,760,434,086	15,787,558,746
	34,163,107,556	21,019,970,518
	<b>51,163,855,497</b>	<b>44,500,882,429</b>

**13.1 Maturity analysis of deposits and other accounts**

Payable on demand	11,058,446,398	23,522,268,389
Payable within one month	10,101,581,343	7,004,465,577
More than one month but less than three months	8,507,825,148	3,470,645,357
More than three months but less than one year	8,532,231,473	9,701,965,760
More than one year but less than five years	12,963,771,135	801,537,346
Over five years	-	-
	<b>51,163,855,497</b>	<b>44,500,882,429</b>

#### 14 Other liabilities

Accrued interest on borrowing from other banks and financial institutions	19,453,333	2,199,746
Accrued interest on customer deposits	681,677,113	506,341,041
Commission received in advance	142,055,558	105,106,412
Obligation under finance lease - capital only (Note 14.1)	24,329,247	20,050,026
Provisions for liabilities and charges (Note 14.2)	66,691,117	105,444,200
Other Creditors	214,496,457	96,445,274
Items in course of transmission	143,647,248	62,749,745
Provision for loans and advances and off balance sheet exposures (Note 14.3)	1,625,268,004	1,180,635,220
Interest suspense account (Note 14.5)	304,082,247	185,108,514
Provision for taxation (Note 14.6)	1,075,641,804	965,685,491
Unrealised loss on foreign exchange contracts	12,963,098	285,648
Due to Head Office	307,000,808	307,010,847
Excise duty payable	1,782,293	1,861,861
	<u>4,619,088,327</u>	<u>3,538,924,025</u>

#### 14.1 Obligation under finance leases

Minimum lease payments (including capital and interest)		
Within one year	11,304,702	9,261,914
More than one year but less than five years	19,921,714	15,686,890
More than five years	-	-
	<u>31,226,416</u>	<u>24,948,804</u>
Present value of minimum lease payments (including capital and interest)		
Within one year	10,475,123	8,557,534
More than one year but less than five years	17,929,229	12,644,380
More than five years	-	-
	<u>28,404,352</u>	<u>21,201,914</u>

#### 14.2 Provision for liability and charges

	<b>2008</b>	<b>2007</b>
	<b>BDT</b>	<b>BDT</b>
Balance as at 01 January	105,444,200	89,980,048
Net charge to profit & loss account	66,691,117	105,444,200
Provision released	(105,444,200)	(89,980,048)
Balance as at 31 December	<u>66,691,117</u>	<u>105,444,200</u>

#### 14.3 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
<b>2008</b>					
Balance as at 01 January	655,341,698	93,414,961	748,756,659	431,878,561	1,180,635,220
Written off during the year	-	-	-	(63,425,091)	(63,425,091)
Recoveries during the year	-	-	-	(69,652,718)	(69,652,718)
Provision made during the year	79,772,861	199,428,475	279,201,336	298,509,257	577,710,593
Balance as at 31 December	<u>735,114,559</u>	<u>292,843,436</u>	<u>1,027,957,995</u>	<u>597,310,009</u>	<u>1,625,268,004</u>
<b>2007</b>					
Balance as at 01 January	535,707,630	-	535,707,630	234,724,572	770,432,202
Written off during the year	-	-	-	(15,843,426)	(15,843,426)
Recoveries during the year	-	-	-	(188,522,765)	(188,522,765)
Provision made during the year	119,634,068	93,414,961	213,049,029	401,520,180	614,569,209
Balance as at 31 December	<u>655,341,698</u>	<u>93,414,961</u>	<u>748,756,659</u>	<u>431,878,561</u>	<u>1,180,635,220</u>

#### 14.4 Provisions on balances with other banks and financial institutions (Nostro A/C)

	<b>2008</b>	<b>2007</b>
	<b>BDT</b>	<b>BDT</b>
Balance as at 01 January	-	153,042
Provision made/ (Recovered) during the year	-	(153,042)
Balance as at 31 December	<u>-</u>	<u>-</u>

#### 14.5 Interest Suspense Account

Balance as at 01 January	185,108,514	115,123,934
Recoveries during the year	(32,969,129)	(51,712,785)
Provision made during the year	151,942,862	121,697,365
Balance as at 31 December	<u>304,082,247</u>	<u>185,108,514</u>

#### 14.6 Provision for tax net of advance income tax paid

<b>Provision for tax</b>		
Balance as at 01 January	1,564,929,282	1,181,464,999
Less: Adjustments made during the year		
Onshore unit	(1,359,162,234)	(1,041,132,027)
Offshore unit	(205,767,048)	(140,332,972)
	(1,564,929,282)	(1,181,464,999)
Add: Provision made during the year		
Onshore unit	1,649,420,857	1,359,162,234
Offshore unit	213,860,097	205,767,048
	1,863,280,954	1,564,929,282
Balance as at 31 December	<b>1,863,280,954</b>	<b>1,564,929,282</b>
<b>Advance income tax paid</b>		
Balance as at 01 January	599,243,791	400,828,886
Add: Amount paid during the year	1,741,372,074	1,376,045,602
Less: Adjustments made during the year	(1,552,976,715)	(1,177,630,697)
Balance as at 31 December	<b>787,639,150</b>	<b>599,243,791</b>
Net Provision	<b>1,075,641,804</b>	<b>965,685,491</b>

Provision for income tax is on the basis of applicable income tax regulations of Bangladesh. Tax return for the financial year ending 31 December 2008 will be filed with the tax authorities by the due date of 15 July 2009.

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 a result, as the Bank had adjusted the loss of 1996 with that of 1997. If the appeal is ruled in Bank's favour the Bank will be entitled to a refund of BDT 25,997,000 which the Bank will offset against any future tax liabilities.

	<b>2008</b>	<b>2007</b>
	<b>BDT</b>	<b>BDT</b>
Funds deposited with Bangladesh Bank at 01 January	2,565,024,160	2,581,016,848
Exchange difference: USD 35,938,625 X (68.92 - 68.57); (2007: 68.57 - 69.015)	12,578,519	(15,992,688)
Funds deposited with Bangladesh Bank at 31 December	<b>2,577,602,679</b>	<b>2,565,024,160</b>

#### 16 Other reserves

Exchange equalization reserve: gain on net open position	3,903,107	3,903,107
Unrealised surplus on amortization of HTM securities		
Opening balance	19,448,985	-
Interest realised on HTM securities	(27,162,815)	-
Add back deferred tax (Note 11.3)	12,223,266	-
Unrealised surplus on amortisation of HTM securities	57,645,781	35,361,791
Less: Deferred tax liabilities (Note 11.3)	(25,940,601)	(15,912,806)
	36,214,616	19,448,985
Revaluation reserve for HFT	106,505,796	-
Less: Deferred tax liabilities (Note 11.3)	(47,927,608)	-
	58,578,188	-
Actuarial gain/(loss) (Note 24.2.5)	(75,246,175)	-
Less: Deferred tax assets (Note 11.3)	33,860,779	-
	(41,385,396)	-
	<b>57,310,515</b>	<b>23,352,092</b>

#### 17 Profit and loss account

Opening balance	4,144,411,114	2,440,877,283
Profit for the year	1,937,357,086	1,703,533,831
Profit remitted to Head office	(794,927,381)	-
Retained profit for the year	<b>5,286,840,819</b>	<b>4,144,411,114</b>

## 18 Contingent liabilities and commitments

Claim against the Bank not acknowledged as debts	-	-
Acceptances and Endorsements	14,383,242,521	6,536,972,749
	<u>14,383,242,521</u>	<u>6,536,972,749</u>
<b>Letter of Guarantees:</b>		
Money for which the Bank is contingently liable in respect of guarantees given favoring:		
Government	2,859,953,941	1,994,692,194
Bank and other financial institutions	167,094,507	128,036,633
Others	564,891,669	679,461,018
	<u>3,591,940,117</u>	<u>2,802,189,845</u>
<b>Others</b>		
Irrevocable letter of Credit	8,352,951,710	8,431,704,627
Foreign exchange contracts - spot and forward	2,956,209,202	912,125,078
Travelers cheques in hand	42,615,132	61,328,799
Govt. Bond in hand	916,157,920	790,401,450
	<u>12,267,933,964</u>	<u>10,195,559,954</u>
	<u>30,243,116,602</u>	<u>19,534,722,548</u>

## 19 Interest income

Staff loans	13,464,413	11,274,301
Home mortgages loans	103,404,212	89,186,560
Car loans	219,838,036	190,971,323
Personal loans	1,163,992,606	787,733,017
Overdraft for Retail	51,050,283	42,875,957
Overdraft for Corporate	216,567,766	170,019,659
Term loans	1,440,976,940	1,164,855,267
Import loans	1,202,592,035	1,169,553,013
Export bills	250,179,046	141,754,022
Income from money market	74,456,703	22,178,700
Income from Offshore Banking Unit	13,650,477	-
Other correspondence Bank	1,407,823	3,153,644
Income from Nostro accounts	103,676,985	54,115,914
Income from Bangladesh Bank FCY Account	76,022,923	141,027,352
	<u>4,931,280,248</u>	<u>3,988,698,729</u>

## 20 Interest on deposit and borrowing

Saving accounts	641,442,878	489,543,706
Term deposits	1,439,434,909	1,298,263,080
Marginal Deposit	6,100,700	3,866,137
Interest paid on finance lease	3,433,367	2,822,048
Interest paid on Repo	186,813	-
Interest on Vostro	20,902	19,692
Money market call borrowing	3,779,417	1,938,556
Money market term borrowing	125,219,648	15,004,330
	<u>2,219,618,634</u>	<u>1,811,457,549</u>

## 21 Income from investment

Interest on treasury bills	367,219,593	264,424,753
Interest Reverse Repo	33,039,148	59,184,722
Interest on Bangladesh Bank bill	18,513,377	66,206,704
Dividend on shares	600,000	-
	<u>419,372,118</u>	<u>389,816,179</u>

## 22 Commission, exchange and brokerage

Commission on LC	809,078,215	503,174,042
Dealing profit	946,032,499	806,472,239
Remittances	38,971,424	33,154,056
Account services	197,420,954	142,052,600
Credit facilities	42,993,211	42,079,279
Cards	6,897,713	4,638,149
Collection bills	4,181,661	4,609,910
Global custody	56,059,028	44,533,674
Other commissions and charges	15,274,681	46,731,781
	<u>2,116,909,386</u>	<u>1,627,445,730</u>



<b>23 Other operating income</b>	<b>2008</b>	<b>2007</b>
	<b><u>BDT</u></b>	<b><u>BDT</u></b>
Profit/(loss) on disposals of Fixed Assets	1,536,481	(105,418)
Other income	1,149,217	-
	<b><u>2,685,698</u></b>	<b><u>(105,418)</u></b>
<b>24 Salaries &amp; allowances</b>		
<b>Short Term Employee Benefits</b>		
Basic salary	266,513,318	174,490,760
Allowances	152,295,321	146,184,137
Bonus	112,686,437	71,204,056
Others	65,080,899	45,840,197
	<b><u>596,575,975</u></b>	<b><u>437,719,150</u></b>
<b>Long Term Employee Benefits</b>		
Bonus	4,074,222	1,532,412
	<b><u>4,074,222</u></b>	<b><u>1,532,412</u></b>
<b>Post Employment Benefits</b>		
Contribution to the defined benefit plan (Note 24.1)	18,581,881	21,125,500
Contribution to the defined contribution plan	16,223,367	10,454,448
	<b><u>34,805,248</u></b>	<b><u>31,579,948</u></b>
	<b><u>635,455,445</u></b>	<b><u>470,831,510</u></b>
<b>24.1 Total expense recognised in the profit &amp; loss account in Employee benefits relating to the defined benefit plan</b>	<b><u>2008</u></b>	
	<b><u>BDT</u></b>	
Current service cost	19,249,638	
Interest cost	3,666,692	
Expected returns on plan assets	(4,334,449)	
Past service cost	-	
Contribution to the defined benefit plan (Note 24)	18,581,881	
<b>24.2 Net liabilities recognised on the balance sheet in respect of the defined benefit plan</b>	<b><u>2008</u></b>	
	<b><u>BDT</u></b>	
The Hongkong and Shanghai Banking Corporation Limited Employees Gratuity Fund (Note 24.2.2)	-	
<b>24.2.1 Post-employment defined benefit plans' principal actuarial financial assumptions</b>	<b><u>2008</u></b>	
Rate of return on investments	12%	
Rate of increase in pay	12%	

According to BAS8, Accounting Policies, Changes in Accounting Estimates and Errors, an entity is required to account for a change in accounting policy resulting from the initial application of a BAS in accordance with the specific transitional provisions of that BAS.

Having adopted the updated requirements of BAS19, Employee Benefits, from 1 January 2008, earlier than the revised effective date of 1 January 2010, in accordance with the Transitional provisions of BAS19, if on initial adoption the transitional liability is less than the liability that would have been recognised under the entity's previous accounting policy, the entity shall recognise that decrease immediately. As a result, the Bank has recognised a Retirement benefit liability of BDT nil. In addition all actuarial gains and losses have been recognised in full in Other Reserves.

According to BAS8, a change in accounting policy should be applied retrospectively, i.e. the entity shall adjust the opening balance of each affected component of equity for the earliest period presented and comparative data as if the new accounting policy had always been applied, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the change. Disclosures required for the movement in the present value of defined benefit obligations and the fair value of plan assets for 2007 are not practicably determinable, therefore the change in accounting policy has been applied prospectively from 1 January 2008.

### 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.

	<u>Expected rates of return %</u>	<u>2008 BDT</u>
Fair value of plan assets (Note 24.2.4)		
Cash	12%	147,215,000
Defined benefit obligation (Note 24.2.3)		
Present value of funded obligations		147,215,000
Present value of unfunded obligations		-
		147,215,000
Net liability		-

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.

### 24.2.3 Changes in the present value of defined benefit obligations

	<u>2008 BDT</u>
At 01 January	61,920,695
Current Service cost	19,249,638
Interest cost	3,666,692
Actuarial (gains)/ losses	72,335,943
Benefits paid	(9,957,968)
Past service cost - vested immediately	-
At 31 December	147,215,000

### 24.2.4 Changes in the fair value of plan assets

At 01 January	61,920,695
Expected returns on plan assets	4,334,449
Contributions by the Bank	93,828,056
Experience gains/ (losses)	(2,910,232)
Benefits paid	(9,957,968)
At 31 December	147,215,000

The actual return on plan assets for the year ended 31 December 2008 was BDT3,184,697 (2007: BDTnil). The Bank expects to make BDT37,114,170 of contributions to the defined benefit plan in 2009.

### 24.2.5 Summary

	<u>2008 BDT</u>
Defined benefit obligations	(147,215,000)
Fair value of plan assets	147,215,000
Net liability	-
Actuarial (gains)/ losses	72,335,943
Experience (gains)/ losses	2,910,232
Total net actuarial (gains)/ losses (Note 16)	75,246,175

### 25 Auditors' fee

	<u>2008 BDT</u>	<u>2007 BDT</u>
Statutory audit	379,500	210,000
	379,500	210,000

### 26 Depreciation and repair of Bank's assets

Repair and maintenance	51,280,331	34,457,800
Depreciation (Note 10)	92,731,371	81,505,280
	144,011,702	115,963,080

### 27 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.

**28 Other operating expenses**

Charitable donation	3,087,401	2,513,397
Subscription of Corporate Member fees	2,959,114	1,135,418
Training expenses	29,227,202	26,529,826
Entertainment expenses	17,135,672	11,299,371
Staff entertainment expenses	8,031,115	5,508,820
Tea boy and messenger conveyance & wages	13,439,543	8,810,544
Security expenses	35,272,971	29,976,855
Staff recruitment costs	1,049,515	665,785
Transportation and conveyance expenses	12,605,422	10,752,672
Staff uniform	3,532,895	3,790,475
Generator and motor vehicles fuel & other expenses	14,421,831	10,423,235
Other office expenses	20,022,282	14,038,756
	<b>160,784,963</b>	<b>125,445,154</b>

**29 Tax**

Profit before tax	<u>3,597,744,546</u>	<u>2,900,639,507</u>
Notional tax on profit before tax, calculated at the rates of statutory tax rate @ 45%	1,618,985,046	1,305,287,778
Excess tax provision in the previous year	(11,952,567)	(3,834,602)
Tax effect on non-allowable expenses	30,435,811	53,874,456
	<b>1,637,468,290</b>	<b>1,355,327,632</b>
Deferred tax on temporary differences (Note 11.2)	22,919,170	(158,221,956)
	<b>1,660,387,460</b>	<b>1,197,105,676</b>

**30 Capital adequacy**

Total Risk Weighted Assets (RWA) as on 31 December	<u>37,775,323,886</u>	<u>33,745,837,890</u>
10% of RWA	<u>3,777,532,389</u>	<u>3,374,583,789</u>
Required capital: The higher of 10% of RWA or BDT2 billion (2007: 10% of RWA or BDT1 billion)	<u>3,777,532,389</u>	<u>3,374,583,789</u>

**Actual Capital maintained**

	<b>2008</b>	<b>2007</b>
	<b>BDT</b>	<b>BDT</b>
<b>Tier I</b>		
Fund deposited with Bangladesh Bank	2,577,602,679	2,565,024,160
Retained Earnings	5,286,840,819	4,144,411,114
Actuarial loss	(41,385,396)	-
Tax Rebate on Head Office Expenses	699,608,430	506,261,449
	<u>8,522,666,532</u>	<u>7,215,696,723</u>
<b>Tier II</b>		
General Provision	1,027,957,995	748,756,659
Unrealized surplus on amortization of HTM securities	36,214,616	19,448,985
Unrealized surplus on revaluation of HFT securities	58,578,188	-
Exchange Equalization	3,903,107	3,903,107
	<u>1,126,653,906</u>	<u>772,108,751</u>
<b>Surplus</b>	<u>9,649,320,438</u>	<u>7,987,805,474</u>
	<b>5,871,788,049</b>	<b>4,613,221,685</b>
<b>% of Capital adequacy required</b>		
Tier -I	5%	5%
<b>Total</b>	<b>10%</b>	<b>10%</b>
<b>% of Capital adequacy maintained</b>		
Tier -I	23%	21%
<b>Total</b>	<b>26%</b>	<b>24%</b>

**31 Cash and cash equivalent**

Cash in hand	862,929,002	960,651,927
Balance with Bangladesh Bank	5,685,893,909	4,927,446,130
Balance with other banks and financial institutions	965,691,567	1,403,846,373
Money at call and short notice	905,000,000	850,000,000
Prize Bond	1,556,710	749,700
28 days T-bills	-	348,597,124
91 days T-bills	5,950,919,473	546,780,716
91 days Bangladesh Bank bills	-	397,598,593
	<u>14,371,990,661</u>	<u>9,435,670,563</u>

**32 Amanah Balance Sheet and profit and loss account**

### 32.1 Amanah Balance Sheet as at 31 December

<b>Assets</b>		
Cash in hand	18,037,314	20,760,817
Investment	300,639,208	460,307,975
Fixed assets	638,986	917,375
Other assets	1,752,651	412,779
	<u>321,068,159</u>	<u>482,398,946</u>
<b>Liabilities</b>		
Deposit	78,098,334	88,135,942
Other liabilities	103,664,924	298,705,427
Retained earnings	139,304,901	95,557,577
	<u>321,068,159</u>	<u>482,398,946</u>
<b>Off balance sheet items</b>		
Contingent liabilities:		
Claim against the Bank not acknowledged as debts	-	-
Acceptances and endorsements	123,633,811	45,367,560
Letters of guarantee	-	37,360,793
Irrevocable letters of credit	58,326,658	116,310,682
Foreign exchange contracts - Spot and Forward	-	-
Traveler Cheques in hand	7,345,640	9,039,197
Govt. Bonds in hand	-	-
	<u>189,306,109</u>	<u>208,078,232</u>

### 32.2 Amanah Profit and Loss Account for the year ending 31 December

<b>Income</b>		
Income from investment	48,057,317	50,696,322
Commission and exchange gain	43,426,406	36,814,014
	<u>91,483,723</u>	<u>87,510,336</u>
<b>Expenditure</b>		
Salaries and allowances	2,401,724	1,855,619
Repair maintenance & depreciation	379,825	342,890
Rent, taxes, insurance, lighting	166,088	143,400
Postage telegram and telephone	26,315	48,452
Stationary and advertisement	19,491	62,635
Other expenses	543,332	426,313
	<u>3,536,775</u>	<u>2,879,309</u>
<b>Profit before provision</b>	<u>87,946,948</u>	<u>84,631,027</u>
General provision @ 1% on unclassified loans and advances of Amanah (including Off balance sheet exposure)	4,825,997	-
	<u>4,825,997</u>	-
<b>Profit before Tax</b>	<u>83,120,951</u>	<u>84,631,027</u>
Tax	39,373,627	78,183,473
<b>Profit after tax</b>	<u>43,747,324</u>	<u>6,447,554</u>

### 33 Related Party Transaction

The Bank, not being incorporated in Bangladesh, operates in Bangladesh under the banking license issued by Bangladesh Bank and therefore the key management personnel of the Bank for the purposes of 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 2008 (2007: 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.

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 2008 amounted to BDT103,676,985 (2007:BDT54,115,914) and interest expense paid to these entities during 2008 amounted to BDT163,671 (2007:BDTnil), 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 license 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, expenses payable to the Bank by the OBU and income tax payable to the Bank by 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, with the exception that during 2007 and up until 4th December 2008 loans made between the bank and the OBU were made at an agreed zero percent interest rate. Net interest income received by the Bank from the OBU in 2008 amounted to BDT13,492,855 (2007:BDTnil) 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 14.6, 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 2008 ( 2007: BDT nil). The total contribution to these schemes in 2008 by the Bank is disclosed in Note 24, Salaries and allowances.

The responsibility for fund management and administration of these schemes rest with the Trustee's of these schemes, however, these functions are delegated to the Bank's Human Resources 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 2008 the Provident Fund had placed deposit of BDT5,924,335 (2007:BDT3,147,796) and the Gratuity Fund had placed deposits of BDT147,215,000 (2007:BDT61,920,695) 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 01 December 2008 the interest rate paid on these deposits was agreed at 7%. Interest expense incurred by the Bank on deposits placed by the Provident Fund in 2008 amounted to BDT352,742 (2007:BDT153,186) and on deposit placed by Gratuity Fund in 2008 amounted to BDT3,184,697 (2007:BDT1,571,038), 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 adjusting events after the balance sheet date.

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, backed up by the Bangladesh Bank's "Managing Core Risks in Banking - Credit Risk Management - Industry Best Practices". 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 and higher-risk sectors
- ▶ Risk rating systems
- ▶ Facility structures
- ▶ Lending to Banks, Non-Banks and Sovereigns
- ▶ Personal lending
- ▶ Corporate and commercial lending
- ▶ Portfolio management and stress testing
- ▶ Monitoring, control and the management of problem exposures
- ▶ Impairments and allowances

At the heart of these processes is a robust framework of accountability. HSBC operates a system of personal credit authorities, not credit committee structures. 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 Asset Liability Committee (ALCO) which meets at least once a month. The members of ALCO as at year end were as follows:

Mr Sanjay Prakash (Chairman)	Chief Executive Officer
Mr Arjun Fernando	Chief Operating Officer
Mr Mahbub Ur Rahman	Corporate Banking Head
Mr Shafquat Hossain	Head of PFS
Mr Tarique Islam Khan	Head of Global Markets
Mr Mustafa Alim Aolad (Secretary)	Head of Finance
Mr Glenn Ashbrooke	Head of Credit Risk Management
Mr Zahed Chowdhury	Head of Global Payments & Cash Management

The Committee's primary function is to formulate policy and guidelines for the strategic management of the bank using pertinent information that has been provided through the ALCO process together with knowledge of the individual businesses managed by members of the Committee. ALCO regularly reviews the Bank's overall asset and liability position, 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 ratio to maintain to ensure financial flexibility to cope with unexpected future cash demands. ALCO monitors the liquidity ratio on an ongoing basis and ascertains liquidity requirements under various stress situations. In order to ensure liquidity against all commitments, the Bank reviews the behavior patterns of liquidity requirements. The Bank has an approved Liquidity Contingency Plan (LCP) which is reviewed and updated on an annual basis by the ALCO. All regulatory requirements including CRR, SLR, 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 also arise from positions held in forward and option contracts. 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 2003. The Bank has a Functional Instruction Manual 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 FWD transaction, Maximum Loss limits per day and per month, as well as Value at Risk 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 based on aging.

As at 31 December 2008 the Bank has no unreconciled entries exceeding three months, as a result, in accordance with (FEPD) Circular No. 677 (13 September 2005) no provisions on Nostro balances are required. In addition, Import business handled by the Bank is less than the Export bills receivable, this has put the Bank in advantageous position in terms of foreign exchange dealing.

#### **35.1.4 Internal Control & 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 our Group Policy Statement 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 & Compliance' the Bank has prepared and implemented appropriate guidelines. In addition, the Group has robust manuals, policy, procedures, etc. entitled Group 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.

#### **35.1.5 Prevention of Money Laundering**

Combating money laundering is one of the key objectives of the Bank. Anti-Money Laundering policies are embedded within the GSM. Therefore, in accordance with our GSM and with the introduction of the Money Laundering Act 2002, the bank has adopted a thorough system to monitor and mitigate the risks of accounts being used for money laundering purposes. The Bank schedules regular training sessions to educate staff on prevention of money laundering and to increase the awareness throughout the Bank.

#### **35.1.6 Information technology**

The Bank maintains its in-house IT department for the support and services of IT systems where the core system is centralized in Hong Kong. Though much of the Bank's systems are built for the Group purpose, there are some sophisticated applications purchased from third party vendors or developed locally as and when required following a Risk Based Project Management (RBPM) methodology. IT department maintains PLA ( Performance Level Agreement ) and SLA ( Service Level Agreement) with business lines 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. IT department produces a monthly report, "The IT Quality Dashboard" for the senior management which covers the following:

- ▶ The status of major IT projects
- ▶ Feedback on problem resolution
- ▶ Progress on all tasks in hand
- ▶ The status of IT self audit.
- ▶ The number of SWIFT message processed.
- ▶ Major Incident Report
- ▶ Number of user profiles maintained by IT
- ▶ 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 compliant 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 of members of the Board. The Audit Committee will assist the board in fulfilling its oversight responsibilities including implementation of the objectives, strategies and overall business plans set by the board for effective functioning of the bank. The committee will review the financial reporting process, the system of internal control and management of

financial risks, the audit process, and the bank's process for monitoring compliance with laws and regulations and its own code of business conduct. The Bank, being a 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 reporting directly to the CEO of the Bank. In addition to this the Bank is subject to audit by the internal auditors of HSBC and the internal auditors of the Group. "

"HSBC has an Audit Committee, comprising of three non-executive Directors of HSBC, which meets on a regular basis with the senior management of HSBC and its subsidiaries and associated companies, 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 HSBC and its subsidiaries and associated companies. The Group has an Audit Committee, comprising of five 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 in Hongkong and the Group in the UK.

### 35.3 Exchange Rates

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

USD 1 =	68.9200	68.5700
HKD 1 =	8.8927	8.7866
SGD 1 =	47.8312	47.4221
GBP 1 =	99.8754	136.8966
AUD 1 =	47.6616	60.1119
EUR 1 =	97.6183	100.9968
CHF 1 =	65.1295	60.8808
JPY 1 =	0.7634	0.6104
CAD 1 =	56.1101	69.8589
NOK 1 =	9.8813	12.6899

### 35.4 Credit Ratings

According to BRPD Circular No.6 (05 July 2006) it is mandatory from January 2007 for all banks to have themselves credit rated by a Credit Rating agency. Credit Rating Agency of Bangladesh Limited (CRAB) has issued the following ratings for the Bank for 2008:

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.

35.5 The figures appearing in these Financial Statements have been rounded off to the nearest Taka ( BDT).

35.6 Last year's figures have been rearranged, wherever necessary, to conform to current year's presentation.



Sanjay Prakash  
Chief Executive Officer, Bangladesh



Mustafa Alim Aolad  
Head of Finance, Bangladesh

16 February 2009



## Annexure - A

**Statement of Liquidity**  
(Assets & Liabilities Maturity Analysis)  
As at 31 December 2008

Particulars	Maturity within 1 month	Maturity within 1 to 3 months	Maturity within 3 to 12 months	Maturity within 1 to 5 years	Maturity over 5 years	Total
	BDT	BDT	BDT	BDT	BDT	BDT
<b>ASSETS</b>						
Cash in Hand	2,571,932,876	-	-	-	3,976,890,035	6,548,822,911
Balance with other banks & financial institutions (Note 6.2)	965,691,567	-	-	-	-	965,691,567
Money at call and short notice	905,000,000	-	-	-	-	905,000,000
Investment (Note 8.1)	3,041,722,402	4,393,350,079	2,535,889,837	364,801,605	6,000,000	10,341,763,923
Loans & advances (Note 9.1)	9,560,513,965	7,103,221,298	5,289,551,643	11,497,721,547	851,735,818	34,302,744,271
Fixed assets	-	-	-	209,509,700	71,127,582	280,637,282
Other assets	10,656,670,647	404,912,335	49,278,660	112,025,978	16,176,636	11,239,064,256
Non-banking assets	-	-	-	-	-	-
<b>Total Assets</b>	<b>27,701,531,457</b>	<b>11,901,483,712</b>	<b>7,874,720,140</b>	<b>12,184,058,830</b>	<b>4,921,930,071</b>	<b>64,583,724,210</b>
<b>LIABILITIES</b>						
Borrowings from other banks & financial institutions ( Note 12.4)	57,696,865	569,063,109	252,266,399	-	-	879,026,373
Deposits & other accounts (Note 13.1)	21,160,027,741	8,507,825,148	8,532,231,473	12,963,771,135	-	51,163,855,497
Other liabilities (including capital/shareholders' equity)	352,497,620	1,371,790,601	1,940,584,316	6,298,367,124	2,577,602,679	12,540,842,340
<b>Total Liabilities</b>	<b>21,570,222,226</b>	<b>10,448,678,858</b>	<b>10,725,082,188</b>	<b>19,262,138,259</b>	<b>2,577,602,679</b>	<b>64,583,724,210</b>
<b>Net Liquidity Difference</b>	<b>6,131,309,231</b>	<b>1,452,804,853</b>	<b>(2,850,362,048)</b>	<b>(7,078,079,429)</b>	<b>2,344,327,392</b>	<b>-</b>

**Financial Highlights**  
As at 31 December 2008

**Annexure - C**

Sl No	Particulars		2008	2007
1	Capital- fund deposited with Bangladesh Bank	BDT	2,577,602,679	2,565,024,160
2	Total capital including retained earnings	BDT	9,649,320,438	7,987,805,474
3	Surplus/ (deficit) capital	BDT	5,871,788,049	4,613,221,685
4	Capital adequacy ratio	%	26	24
5	Total assets	BDT	64,583,724,210	55,533,291,329
6	Total deposits	BDT	51,163,855,497	44,500,882,429
7	Total loans and advances	BDT	34,302,744,271	33,807,700,861
8	Total contingent liabilities	BDT	30,243,116,602	19,534,722,548
9	Advances / Deposits ratio	%	67	76
10	Classified advances as a percentage of total advances	%	2.04	1.28
11	Profit after tax and provisions	BDT	1,937,357,086	1,703,533,831
12	Amount of provision against classified loans	BDT	597,310,009	431,878,561
13	Provision surplus/ (deficit)	BDT	191,187,497	5,232,261
14	Interest expenses	BDT	2,219,618,634	1,811,457,549
15	Interest bearing assets	BDT	59,377,560,694	41,148,004,975
16	Non-interest bearing assets	BDT	5,206,163,516	14,385,286,354
17	Return on investment* (ROI)	%	4	16
18	Return on average investment (ROAI)	%	6	8
19	Return on Assets* (ROA)	%	3	3

\* Calculated on the basis of year end investment and asset balances respectively

The credit rating disclosed in our 2008 Statutory Accounts was issued by Credit Rating Agency of Bangladesh Limited (CRAB) in their report dated 9 March 2008. Our credit rating has now been reassessed by CRAB as set out below:

<b>Long Term</b>	<b>AAA</b>
<b>Short Term</b>	<b>ST-1</b>
<b>Date of Rating</b>	<b>February 18, 2009</b>
<b>Validity</b>	<b>One year</b>

Commercial banks rated in the long term AAA belong to 'Highest Safety' cohort. Banks rated in this category are adjudged to be the strongest banks, characterized by excellent financials, healthy and sustainable franchises, and a first rate operating environment. This level of rating indicates exceptionally strong capacity for timely payment of financial commitments, highly unlikely to be adversely affected by foreseeable events. Commercial banks rated in this category are considered to have the highest capacity for timely repayment of obligations. Banks rated in this category are characterized with excellent position in terms of liquidity, internal fund generation, and access to alternative sources of funds.