

Bangladesh Branches

Significant notes to the Financial Statements

1 Background

The Hongkong and Shanghai Banking Corporation Limited (HSBC), Bangladesh Branches commenced its banking operations in Bangladesh on 03 December 1996 after obtaining its banking licence from Bangladesh Bank on 17 April 1996. The Hongkong and Shanghai Banking Corporation Limited is incorporated in Hong Kong and its ultimate holding company HSBC Holdings plc is incorporated in England.

2 Nature of business

The principal activities of the HSBC in Bangladesh is to provide a comprehensive range of financial services; personal and commercial banking; trade services; cash management; treasury, securities and custody services to its customer.

3 Significant accounting policies

3.1 Basis of accounting

These Financial Statements are prepared according to the Bank Companies Act 1991, Bangladesh Accounting Standards and other applicable directives issued by relevant Bangladesh Authorities.

3.2 Fixed Assets and Depreciation:

- i. Fixed assets are stated at cost less accumulated depreciation.
- ii. Depreciation is charged at the following rates on straight line method on all fixed assets and the amount is calculated from the month of capitalisation on monthly basis.
- iii. Depreciation rates used for each type of fixed assets are as follows:

Particulars of Fixed Assets	Rate of Depreciation per annum
Office furniture & fittings	10%
Office Equipment	20%, 14.28%
Residence furniture & fittings	10%
Residence Equipment	20%
Leasehold Improvement	10%
Motor Vehicles	20%
Computer	33%

iv. Full month's depreciation is charged on additions to fixed assets from the month of purchase while depreciation is calculated on assets disposed off/discarded upto the month of disposal.

v. Repairs and maintenance are charged to expense as and when incurred.

vi. As per group guidelines on IT assets, all ATMs and Easy pay machines are now depreciated over 7 years after November 2006. Previously this was set at 5 years.

3.2 A Lease hold fixed assets

All Lease-hold fixed assets has been accounted for as financed lease from 2004. These have been shown in Other Assets and such movement has been presented separately in Annexure A1. This has been done in accordance with the provisions of BAS 17 Leases.

3.3 Income Taxes

Provision for income tax has been made @ 45% as prescribed in Finance Act 2006 of the profit made by the Bank by considering taxable add-backs of income and disallowances of expenditures.

Deferred tax assets have been recognised in accordance with the provisions of BAS 12 Income taxes, on the deductible temporary difference arising due to difference in carrying amount of fixed assets and staff gratuity.

3.4 Foreign currencies:

Foreign currency transactions have been converted into Taka currency at the rates prevailing on the transaction date. Monetary assets and liabilities in foreign currencies at the balance sheet date have been translated into Taka currency at the rates prevailing on the balance sheet date.

Other exchange differences are recognised in the profit and loss account.

3.5 Loans and Advances:

a) These are stated at gross, with accumulated specific and general provisions for bad and doubtful debts being shown under other liabilities.

b) Interest is calculated on a daily product basis but charged and accounted for quarterly on an accrual basis.

c) Provision for loans and advances is made on the basis of period end review by the management and of instructions contained in Bangladesh Bank BCD Circular no. 34 dated 16 November 1989, BCD Circular no. 20 dated 27 December 1994, BCD Circular no. 12 dated 4 September 1995, BRPD Circular no. 16 dated 6 December 1998, BRPD Circular no. 9 dated 14 May 2001 and BRPD Circular 19 & 20 dated 20 December 2005 and BRPD circular 05 dated 05 June 2006.

3.6 Investments:

As per the directive of BRPD circular 15 dated 31 October 2005 treasury bills and bonds held by the bank have been revalued on the basis of marking to market. The securities held for the fulfilment of statutory Liquidity Requirement (SLR) is treated as Held to Maturity (HTM) and securities held in excess of SLR is treated as Held for Trading (HFT). The gain/(loss) from the revaluation of HFT securities is shown in the Profit and Loss account.

3.7 Retirement benefits:

Provident Fund benefits are given to the staff of the Bank in accordance with the locally registered Provident Fund Scheme called The Hongkong and Shanghai Banking Corporation Limited's (Hongkong Bank) Staff Provident Fund Scheme.

3.8 Allocation of common expenses

Expenses common to the Hongkong and Shanghai Banking Corporation Limited, Bangladesh Branches and the Hongkong and Shanghai Banking Corporation Limited, Offshore Banking Unit, Bangladesh have been allocated between the entities on the basis of operating income.

4 Capital

In terms of the section 13(4) of the Bank Companies Act 1991 and Bangladesh Bank Circular no. 10 dated 25 November 2002, the required value of the capital and reserves of the Bank at the close of the business on 31 December 2006 should be Taka 1,000,000,000 or 9% of risk weighted assets whichever is higher. The Bank's capital was greater than the amount required as additional capital of USD 18.30 million was brought in from the head office dated 03 May 2005. There remains a surplus of Taka 3,377.33 million as capital fund of the bank at the close of business on 31 December 2006.

Details of such surplus capital fund are given below:

	2006 Taka	2005 Taka
Total risk weighted assets as on 31 December	27,942,202,824	22,852,936,397
9% of risk weighted assets	<u>2,514,798,254</u>	<u>2,056,764,276</u>
Required capital (9% of total risk weighted assets or BDT 1,000,000,000 whichever is higher)	<u>2,514,798,254</u>	<u>2,056,764,276</u>
Actual Capital maintained		
Tier I		
Fund deposited with Bangladesh Bank	2,581,016,848	2,480,748,085
Retained Earnings	2,440,877,283	1,592,471,995
Tax Rebate on Head Office Expenses	330,627,699	203,750,654
	<u>5,352,521,830</u>	<u>4,276,970,734</u>
Tier II		
General Provision	535,707,630	281,950,947
Exchange Equalisation	3,903,107	3,903,107
	<u>539,610,737</u>	<u>285,854,054</u>
	<u>5,892,132,567</u>	<u>4,562,824,788</u>
Surplus	<u>3,377,334,313</u>	<u>2,506,060,512</u>
% of Capital adequacy ratio	<u>21%</u>	<u>20%</u>

5 Particulars of loans and advances

industry - wise classification	2006	2005
Ready-made garments	2,879,959,275	1,724,873,891
Agriculture and agro processing	5,790,600,000	4,878,100,000
Steel and Metal	3,079,046,298	1,230,035,549
Transport	237,959,000	654,430,781
Trade	2,152,824,502	1,763,342,544
Chemical & Pharmaceuticals	1,554,556,846	2,143,172,365
Non-banking financial institutions	1,210,210	35,245,916
Telecommunication	644,993,000	190,482,430
Non Government Organisation	115,868,091	293,164,983
Power and energy	421,354,246	898,323,680
Retail Loans	7,305,284,430	7,002,978,372
Staff Loans	266,669,260	208,502,425
Others	1,654,955,724	413,834,591
	<u>26,105,280,882</u>	<u>21,436,487,527</u>

6 Provision for loans and advances

a) Specific provision against classified loans and advances:			
Opening balance	225,173,960	168,156,684	
Write off during the year	(38,031,089)	(11,474,282)	
Recoveries of advances previously provided for	(81,498,470)	(53,737,719)	
Specific provision for the year	129,080,171	122,229,277	
Net charge to Profit & loss account	47,581,701	68,491,558	
	<u>234,724,572</u>	<u>225,173,960</u>	

b) General provision against unclassified loans and advances:

Opening balance	281,950,947	171,396,476
Add: Provision made for the year	253,756,683	110,554,471
	<u>535,707,630</u>	<u>281,950,947</u>
	<u>770,432,202</u>	<u>507,124,907</u>

7 HSBC in Bangladesh being a foreign bank does not have a local Board of Directors who can set an audit committee, but the Bank has an internal audit committee reporting to the Chief Executive Officer, Bangladesh. In addition to this the branches are audited by the Head Office auditors both from United Kingdom and Hongkong SAR.

8 As per BRPD circular 06 dated 05 July 2006 it has been mandatory for all banks to have their credit ratings by a credit rating agency. Credit rating information and services limited (CRISL) has reviewed all the risk categories for HSBC Bangladesh and rated as AA+ for long term and ST-1 for short term.

Steve Banner
Chief Executive Officer, Bangladesh

Adnan Wahed
Chief Operating Officer, Bangladesh

Statement of Changes in Equity For the year ended 31 December 2006

Particulars	Fund deposited with Bangladesh Bank	Other reserve	Profit and loss account	Total
	Taka	Taka	Taka	Taka
Balance at 1 January 2006	2,480,748,085	3,903,107	1,592,471,995	4,077,123,187
Capital brought from Head office during the year				-
Translation adjustment on capital	100,268,763			100,268,763
Net profit for the year			1,216,786,866	1,216,786,866
Profit remitted to Head Office			(368,381,578)	(368,381,578)
Balance at 31 December 2006	<u>2,581,016,848</u>	<u>3,903,107</u>	<u>2,440,877,283</u>	<u>5,025,797,238</u>

Statement of Liquidity (Assets & Liabilities Maturity Analysis) As at 31 December 2006

Particulars	Maturity upto 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 Amount
	Taka	Taka	Taka	Taka	Taka	Taka
ASSETS						
Cash in Hand	2,362,696,567	-	-	-	2,480,304,204 <small>(See note 1 below)</small>	4,843,000,771
Balance with other banks & financial institutions	1,201,838,693	-	-	-	-	1,201,838,693
Money at call and short notice	400,000,000	-	-	-	-	400,000,000
Investment in Treasury Bills & Other	3,444,445,953	98,972,212	232,893,036	6,000,000	-	3,782,311,201
Loans & Advances to Customers	2,639,954,265	8,325,064,539	5,265,964,370	9,874,297,708	-	26,105,280,882
Fixed Assets	-	-	-	226,015,967	1,572,665	227,588,632
Other Assets	4,966,749,938	106,622,821	27,969,953	58,541,663	22,010,798	5,181,895,173
Non-banking assets	-	-	-	-	-	-
Total Assets	15,015,685,616	8,530,659,572	5,526,827,359	10,164,855,338	2,503,887,667	41,741,915,352
LIABILITIES						
Borrowings from other banks & financial institutions	11,267,739	1,000,000,000	11,338,605	-	-	1,022,606,344
Deposits & Other Accounts	11,408,705,200	12,883,663,279	8,570,892,425	13,474,769	-	32,876,725,673
Other Liabilities (including capital/ shareholders' equity)	73,974,377	171,957,058	1,339,753,517	918,906,709	5,337,991,654 <small>(See note 1 below)</small>	7,842,583,335
Total Liabilities	11,493,947,336	14,055,610,337	9,921,984,547	932,381,478	5,337,991,654	41,741,915,352
Net Liquidity Difference	3,521,738,080	(5,524,950,765)	(4,395,157,188)	9,232,473,860	(2,834,103,987)	-

Note: 1 This represents cash deposited with Bangladesh Bank towards capital

Financial Highlights As at 31 December 2006

Particulars	2006	2005
Capital- fund deposited with Bangladesh Bank	Taka 2,581,016,848	2,480,748,085
Total Capital including retained earnings	Taka 5,025,797,238	4,077,123,187
Surplus/ (Shortage) retained	Taka 3,377,331,559	2,506,060,512
Capital Adequacy Ratio (required rate is 9%)	%	21
Total Assets	Taka 41,741,915,352	31,209,799,826
Total Deposits	Taka 32,876,725,673	24,363,012,133
Total Loans and Advances	Taka 26,105,280,882	21,436,487,527
Total Contingent Liabilities	Taka 21,325,835,668	16,941,067,093
Advances / Deposits ratio (%)	%	79.00
Classified advances as (%) of total advances	%	0.37
Profit after tax and provisions	Taka 1,216,786,466	861,229,369
Amount of provision against classified loans	Taka 234,724,572	225,173,960
Amount of provision against unclassified loans	Taka 535,707,630	281,950,947
Provision surplus/ (shortage)	Taka 231,163,898	198,242,723
Interest expenses	Taka 3,985,879,416	1,012,936,940
Interest bearing assets	Taka 33,983,487,886	27,062,207,032
Non-interest bearing assets	Taka 7,758,427,466	4,147,592,794
Return on investment (ROI)- %	%	5.62
Return on Assets (ROA)- %	%	2.92