HABIB Bank Limited
Market Discipline Disclosure Framework
As on December 31, 2012

1) Assets

<u>Qualitative Disclosure</u>

Views of Management on assets lying with bank

According to Basel-II guideline the assets of the bank have been segmented into two types: (i) Banking Book Assets (ii) Trading Book Assets. At present HBL Bangladesh has no trading book exposure. The Banking Book assets are being managed quite systematically giving due emphasis on maximum returns and minimization of risks. However, classified assets need to be recovered/regularized on priority basis.

Comments on nature of assets i) Earning Assets (Trading book asset, Banking book asset, etc) and ii) Non-earning assets (Cash, Cash reserve with BB, etc.)

The assets of the bank are categorized into earning and non-earning. Banks earning assets covered by the Loans & Advances, Investment in Govt. securities, Placement with Central Bank & local bank, Balance with other banks & Financial Institutions. Non-earning Assets covered by the Balance with Bangladesh Bank for maintaining CRR, Cash & cash equivalents (including FCY), Fixed assets, other assets.

Efforts are being made at all levels to reduce the proportion of Non-earning assets in the total Assets size of the Bank. Assets are being monitored on a regular basis to cope-up with the inherent risks. Assets Liability Committee (ALCO) monitors and reviews the asset portfolio frequently as per directives of Bangladesh Bank with a view to earn profit by taking minimum risks.

Definition of Default and Classified Assets

Loans and Advances are the major Assets of the Bank but the loans and advances which are not repaid as per schedule are known as 'default loans'. Borrowers who do not maintain discipline in repayment of their loans in time are closely monitored. Classified Assets are

Addition/Reduction on Classified Assets

Ratio of classified loans to total loans stood at 14.82% as on 31 December, 2012 as against 0.46% as on 31 December, 2011.

Policies and processes for protecting assets against Core Risks inherent with banking activities

The ALCO reviews on a monthly basis the Bank's overall assets and liability position, the bank's liquidity position, Balance Sheet risk, interest rate risk and the country's overall economic situation and takes necessary steps as and when required for minimizing the risks. The Bank also has a Risk Management Unit for protecting the assets of the Bank against the Core Risks inherent in the Banking activities. Head Office Karachi also monitored risk associated with the bank in regular basis by reviewing monthly report.

Quantitative Disclosure | **Amount in Crore**

A. Banking Book Assets

1. Cash in hand & Balance with BB (excluding FC)	54.48
2. Money at call	50.00
3. Investment (HTM)	60.05
a. Government	60.05
b. Qualifying (banks, etc)	-
c. Others	-
4. Loans & advances	354.43
a. Classified (SMA. SS, DF & BL to be shown separately)	67.38
SMA	14.84
SS	26.13
DF	0.47
BL	25.95
b. Unclassified	287.05
5. Risk Weighted Assets	396.31
a. Below 100% RW	67.91
b. 100% RW	24.18
c. Above 100% RW	304.22
6. Rated Status	568.51
a. Rated Assets	-
b. Unrated Assets	568.51
7. Other assets (Including Fixed Assets)	22.34
Total Banking Book Assets (1+2+3+4+7)	**541.30**

B. Trading Book Assets

1. FC held in hand	0.71
2. FC held in BB & Nostro account	394.70
3. Investment (trading)	7.93
a. Govt. (part of	-
b. HFT	7.93
c. AFS (if any)	-
Total Trading Book Assets (1+2+3)	**403.34**
Total Assets (A+B)	**944.64**

2) Credit Risk on Banking Book

Qualitative Disclosure
Views of Mancom on Credit Risk

Credit risk is the risk of loss due to the failure of a borrower to meet its credit obligations in accordance with agreed contract terms. Credit risk makes up the largest part of bank's risk exposures. The bank's credit process is guided by centrally established credit policies, rules and guidelines continuing a close-to-the market approach with an aim to maintain a well-diversified portfolio of credit risk which produces a reliable and consistent return.

Methods used to measure credit risk

The credit risk is measured by following the Credit Risk Grading (CRG) as per Credit Policy Manual and Bangladesh Bank guidelines.

Credit Risk Management system

Credit risk policies are established by the Credit Policy Committee (HOK) and approved by the Board through its Risk Management Committee. The Bank has a system of checks and balances in place around the extension of credit that are:

- an independent risk management function
- multiple credit approvals
- an independent audit and risk review function

The Credit Risk Strategy reflects Bank's tolerance for risk i.e. credit risk appetite and the level of expected profitability. This, as a minimum, reflects Bank's strategy to grant credit based on various products, economic sectors, client segments etc., target markets giving due consideration to risks specific to each target market.

Salient features of our Risk approval process are delineated below:

- Every extension of credit to any counterparty requires approval by the predefined level of authority.

- All Business groups must apply consistent standards in arriving at their credit decisions.

- Every material change to a credit facility requires approval at the appropriate/pre-defined level.
- Credit approval authority is assigned to individuals according to their qualifications and experience

The disbursement, administration and monitoring of credit facilities are managed by Credit Administration Departments (CAD) linked to various business units and operates under the operation department. CAD is also responsible for collateral/documents management.

Policies and processes for collateral valuation and management:

a description of the main types of collateral taken by the bank;

- Legal mortgage of land, building and machineries.
- Pledge/Lien of financial instruments/obligations.
- Personal guarantee/corporate guarantee.
- Assignment of bills receivables

Assessment of value of security are as follows:

- Value of stock shall be assessed by the RM/CAD officer taking into consideration the Procurement cost/market value which ever is lower.

- Value of Fixed assets/property (land, building and machinery) should be assessed by Banks enlisted/recognized surveyor/valuator.

the main types of guarantor counterparty and their credit worthiness; and

Other financial institutions, correspondents, corporate borrower, credit rating, CRG score etc are assessed to evaluate credit worthiness.

information about market or credit risk concentrations with the mitigation measure taken

Credit portfolio is being analyzed in respect of the large exposure and credit risk, concentration, and effort are made to diversify the credit portfolio and for introduction of new products etc. as mitigation measures.

Quantitative Disclosure

	Amount in Crore
A) Total Exposures of Credit Risk	619.12
1. Funded	**568.51**
a) Domestic	568.51
b) Overseas	-
2. Non-Funded	**50.61**
a) Domestic	50.61
b) Overseas	-

3. Distribution of risk exposure by claims	**583.07**
A. Claims on sovereigns and central banks	172.84
B. Claims on other official entities	-
C. Claims on banks and securities firms	-
D. Claims on corporate (ME loans to be shown separately)	182.13
E. Claims included in the retail portfolio & SE (consumer loan to be shown separately)	12.78
F. Claims secured by residential property	-
G. Claims secured by commercial real estate	-
H. Other Categories:	-
– Past due loans/NPL	52.54
– Off-balance sheet items	162.77

4. Credit Risk Mitigation

Claims secured by financial collateral	67.50
Net exposure after the application of haircuts.	264.39
Claims secured by eligible Guarantee	-

3) Market risk on Trading Book

<u>Qualitative Disclosure</u>

Views of MANCOM on trading/investment activities

Methods used to measure Market risk

Market Risk Management system

Policies and processes for mitigating market risk

It is the risk of loss due to adverse movements in market rates or prices, such as foreign exchange rates and interest rates. It emanates from the trading activities mainly carried out by Treasury and investments positions in banking book.

At HBL-Bangladesh, its Asset-Liability Committee (ALCO) regularly meets to address factors such as the change in interest rate, market conditions, carry out liability maturity gap analysis and re-pricing of products. With their assessment HBL takes effective measures to monitor and control interest rate risks while the Treasury department reviews the trend analysis of market movements and prepares the gap position for proper management of interest rate changes.

The Treasury department measures and monitors Foreign Exchange Risk which refers to the potential change in earnings arising due to change in foreign exchange market prices. HBL-Bangladesh foreign exchange risk is insignificant, because of carrying out foreign exchange transactions judiciously. Even then, in order to manage Foreign Exchange Risk, the Treasury department has been segregated to two parts consisting of a Front and Back office. Front office undertakes trading with the counterparty (local/foreign) and constantly monitors the trading risk, counter party limit of the bank. Back office undertakes settlements and generates various MIS reports for Head Office and Bangladesh Bank.

Quantitative Disclosure **Amount in Crore**

The capital requirements for:

interest rate risk;	0.03
equity position risk;	-
foreign exchange risk; and	0.14
Commodity risk	-

4) Operational risk

Qualitative Disclosure

Views of MANCOM on system to reduce Operational Risk

Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk. HBL has established an effective, integrated operational risk management framework to mitigate the operational risk. The focus of operational risk is on low probability/high loss vs. high probability/low loss events.

Performance gap of executives and staffs

The bank offers a competitive compensation package to the employees based on performance and merit. The bank has developed one of the finest teams of efficient and responsible officers with high ethical standards who are working in a congenial atmosphere.

Policies and processes for mitigating operational risk

Bank has established an effective, integrated operational risk management framework to mitigate the operational risk, Internal control and compliance division of the bank with other assigned department has been performing the supervisory and monitoring works to manage this risk.

Approach for calculating capital charge for operational risk

The Bank has adopted Basic Indicator Approach (BIA) to compute capital charge against operational risk under Basel-II as per the Bangladesh Bank Guidelines.

Quantitative Disclosure

The capital requirements for:

Operational Risk	4.31

5) Maintenance of Specific Provision

Qualitative Disclosure

Views of MANCOM on system of maintaining specific provision

The procedures and systems for specific provisioning against classified assets is quite satisfactory and adequate provisions are being made in the Bank. The Bank follows procedures for loan classification, provisioning and other issues relating to Non-Performing Loans (NPL) as per Bangladesh Bank's Guidelines. The Bank reviews classified loans and advances to assess the required provision in accordance with BRPD Circular No. 05 (5 June 2006).

Quantitative Disclosure

A) Gross Non Performing Assets (NPAs)	52.54
Non Performing Assets to Outstanding Loans & advances	14.82%

B) Movement of Non Performing Assets (NPAs)	
1. Opening balance	1.42
2. Additions	51.64
3. Reductions	0.52
4. Closing balance	**52.54**

C) Movement of specific provisions for NPAs	
1. Opening balance	9.05
2. Provisions made during the period	10.13
3. Write-off	(0.01)
4. Write-back of excess provisions	(3.11)
5. Closing balance	**16.06**

6) Maintenance of Regulatory Capital

Qualitative Disclosure

Capital Structure :

Under Basel-II, the eligible capital is composed of (i) Core capital, (ii) Supplementary capital (Tier-ii), and (iii) Additional supplementary capital (Tier-iii). Under current capital structure banks maximum capital falls under Tier-I. The bank is planning to increase its Tier-I capital by fresh capital injection from Head Office to meet regulatory capital requirement.

Quantitative Disclosure	**Amount in Crore**
A) Amount of Tier-1 Capital	**432.72**
Component wise disclosure	
1 Capital Fund deposited with Bangladesh Bank	414.60
2 Retained Earning including Lien Fund	18.12
3 General Reserve/ Other Reserve	-
B) Amount deducted from Tier-1 Capital	-
Good will	-
Shortfall in provisions	-
Others	-
C) Total amount of T-2 capital (net of deductions from T-2 cap)	**5.17**
D) Total eligible capital.	**437.89**

7) Capital Adequacy

Qualitative Disclosure

Bank has adopted Standardized Approach (SA) for computation of capital charge for credit risk and market risk, and Basic Indicator Approach (BIA) for operational risk as per Guidelines of Bangladesh Bank. Assessment of capital adequacy is carried out in conjunction with the capital adequacy reporting to the Bangladesh Bank.

Bank has capital adequacy ratio of 86.84% as on December 31, 2012 out of which Core Capital (Tier I) Capital adequacy ratio is 85.81% and Tier 2 and 3 is 1.03% against the minimum regulatory requirement of 10%.

Quantitative Disclosure

A) Amount of Regulatory Capital to meet unforeseen loss	-
o Amount to meet Credit Risk	45.96
o Amount to meet Market Risk	0.16
o Amount to meet Operational Risk.	4.31
B) Some additional capital over MCR maintained by the banks	-