CREDIT RATING REPORT
On
HABIB BANK LIMITED - Bangladesh Operations

REPORT: RR/66075/23

This is a credit rating report as per the provisions of the Credit Rating Companies Rules, 2022. CRISL long-term rating is valid for only one year and short term rating for six months from the date of rating. After the above periods, these ratings will not carry any validity unless the bank goes for rating surveillance. ***CRISL followed Bank/FI Rating Methodology published in CRISL website www.crislbd.com***

Date of Rating: June 20, 2023	Valid up to: June 19, 2024	
	Long Term	Short Term
Surveillance Rating	AA-	ST-2
Outlook	Stable	

Address:
CRISL
Nakshi Homes
(4^{th} & 5^{th} Floor)
6/1A, Segunbagicha,
Dhaka-1000
Tel: 9530991-4
Fax: 88-02-9530995
Email:
crisldhk@crislbd.com

Rating Contact:
Tanzirul Islam
tanzir@crislbd.com

Analysts:
Md. Anowar Hossain
anowar@crislbd.com

Sujon Mia
sujon@crislbd.com

Entity Rating
Long Term: AA-
Short Term: ST-2

***Outlook**: Stable*

HABIB BANK LIMITED - Bangladesh Operations

ACTIVITY
Commercial Banking

COMENCEMENT OF OPERATION
1976

COUNTRY MANAGER
Muhammad Selim Barkat

TOTAL ASSETS
Tk.13,285.87 million

TOTAL EQUITY
Tk.4,521.70 million

TOTAL LOANS & ADV.
Tk.5,191.92 million

1.0 RATIONALE

CRISL has upgraded the Long Term rating to "AA-" (pronounced as double A minus) and reaffirmed "ST-2" rating in the Short Term to Habib Bank Limited-Bangladesh Operations (HBL Bangladesh). The above ratings have been assigned after an in-depth analysis of the operational and financial performance of the bank up to December 31, 2022 and March 31, 2023 along with all its relevant quantitative and qualitative factors up to the date of rating.

While assigning the rating, CRISL factored the ongoing fundamentals of the bank such as good capital adequacy and liquidity, experienced management team, good IT infrastructure with all substantial support from Head Office of the bank etc. However, the above factors are constrained, to some extent by moderate asset quality, lower profitability, operating efficiency and recovery, fluctuating trend in deposit, etc. However, the above factors will not pose any additional risk or impact on the above ratings during the period of rating validity.

HBL Bangladesh maintains limited cliental base with low credit portfolio and as such one or two big clients' performance has adverse impact on overall asset quality and profitability. CRISL considers the dependency and concentration on clients, which are in line with HBL's credit portfolio. The overall financial performance and operating efficiency of the bank has been found to be low in the current year but expect to be improved in the days to come. As a foreign commercial bank, HBL Bangladesh maintains good capital base which is more than the requirement according to Basel III.

Bank rated in this category is adjudged to be of high quality, offer higher safety and have high credit quality. This level of rating indicates a corporate entity with a sound credit profile and without significant problems. Risks are modest and may vary slightly from time to time because of economic conditions. The Short term rating indicates high certainty of timely repayment of liabilities. Liquidity factors are strong and supported by good fundamental protection factors. Risk factors are small.

CRISL has placed the bank with "Stable Outlook" for its performance being in line with the pace of industry.

2.0 CORPORATE PROFILE

2.1 Genesis

Habib Bank Limited - Bangladesh Operations, is the foreign branch of Habib Bank Limited ('HBL'), the largest Bank in Pakistan having 1,746 branches and around 2,268 ATM in 13 countries. The HBL started its operation in Pakistan in 1947. HBL has been operating with the mission "To make our customers prosper, our staff excel and create value for shareholders". HBL, Pakistan has a total asset size of USD 20.49 billion in YE2022 against USD 19.07 billion in YE2021 and loans & advances stood at USD 7.87 billion at YE2022 against USD 6.66 billion at YE2021. HBL has achieved credit rating of "AAA" in long term and "A-1+" in short term by VIS Credit Rating Company Limited. Moody's also reaffirmed HBL's local and foreign currency deposit ratings at B3 and the baseline credit assessment at caa1. The Outlook on the ratings is stable. HBL started the Bangladesh operation at Dhaka upon obtaining the required permission from Bangladesh Bank in 1976. The asset size of HBL Bangladesh stood at Tk.13.29 billion at YE2022 against Tk.11.52 billion at YE2021 and loan & advances stood at Tk.5.19 billion at YE2022 against Tk.4.07 billion at YE2021. Currently, Mr. Muhammad Selim Barkat, Country Manager is leading the operation of HBL Bangladesh. The Bangladesh operation of the Bank is managing its activities through five branches. The head office of HBL is located at Karachi, Pakistan and Bangladesh Country Office is located at Autograph (4th Floor), 67 & 68 Kemal Ataturk Avenue, Banani Dhaka 1213.

Md. Asaduzzaman Khan
Chief Executive Officer
Credit Rating Information and Services Limited

CREDIT RATING REPORT
On
HABIB BANK LIMITED - Bangladesh Operations

2.2 Ownership Pattern and control

The shareholding position of HBL has remained the same during the period under surveillance. As per December 31, 2022; The Aga Khan Fund for Economic Development holds the majority of the shares (51%) followed by foreign companies (5.90%), CDC Group PLC (4.99%), Bank, Financial Institutions and others (2.86%), Insurance companies (2.49%), General Public both local and foreign (8.31%), Associated Companies (4.68%), Directors, Chief Executive officer, Executives and their Spouse and Minor Children (0.13%), Mutual Fund (3.12%) and the rest are held by others (16.52%). HBL Bangladesh has been continuing its operation in Bangladesh as a foreign branch of HBL. HBL Bangladesh has been licensed by Bangladesh Bank (BB) to operate as a branch operation of a foreign bank and as such, there is no separate ownership for the same.

The full operation of the bank is being controlled and monitored by the Head Office and Country Manager is responsible for its Bangladesh operation.

2.3 Operational Network

Small branch network

HBL Bangladesh is continuing its operation with a small branch network. Currently, the bank has only five branches located at Motijheel, Banani, Uttara at Dhaka and the remaining at Chattogram and Sylhet. The bank has six ATM booths in Bangladesh.

2.4 Business Profile

The bank is operating with a limited market share. However, the bank is continuously trying to expand its business horizon to provide a wide range of services and support to its customers. Recent initiative of China Coverage-based also adds value to the services of the bank. The bank continues its focus on fixed deposits under the deposit portfolio. In the loan portfolio, the bank continues its focus on corporate lending. The asset products of the bank include term loan, loan against imported merchandise (LIM),TR loan, cash credit, overdrafts, packing credit, bills discount, purchase and staff loan, etc as well as provide import, export and guarantee services and work order facilities. On the other hand, its liability products are current deposit, FCY deposit, savings deposit, fixed deposit, STD, convertible account, SND Account, Money Club (School Banking) Account, Daily Progressive Account, Bhabnahin and L/C margin (FCY), etc. Moreover, the bank has a VISA debit card, Internet banking and ATM for its valued customers for smooth banking. It has also introduced SMS alerts, e-statements, etc. for its customers. The management of the bank has also developed a "Product based Model" concept through changing the existing concept of the "Branch based Model" where CASA (Current and Savings Account) deposit will be promoted gradually, diminishing the dependency on term deposit. The application of this concept will help the bank to reduce the high cost of the funding mix. In this model, the bank also focuses on repositioning the employee's activities and introduces real time services to the clients through mobile banking. "Cash Management Product" is a part of the "Product based Model" that covers the liquidity management of the bank and clients, receivables and payable management of the clients, utility bills, worker's payment, and other relevant services.

HBL Bangladesh initiated a major restructuring process for its business model in 2020. This transformation of the business strategy entails redefining target market and risk acceptance criteria focusing on select industries where the bank intends to grow its market share. The bank is also introducing product focus across cash management, trade finance and services, and in the areas of foreign exchange. This revised strategy is expected to boost cross-selling of financial products to the bank's existing and future clients with the objective of diversifying revenue streams based on acceptable risk. The new strategy also aims at portfolio diversification so as to mitigate concentration risk. A significant part of HBL Bangladesh's new business initiatives relates to its China connectivity. Riding on the Bank's network in China, HBL Bangladesh has established a China desk to cater to Chinese companies operating in Bangladesh. The bank aims to becoming one of the foremost banks in the country offering RMB denominated trade and cash management transactions and major source of RMB liquidity in the local market.

Md. Asaduzzaman Khan
Chief Executive Officer
Credit Rating Information and Services Limited

CREDIT RATING REPORT
On
HABIB BANK LIMITED - Bangladesh Operations

2.5 Market Position

Small market share

Being a foreign bank with a limited branch network, HBL Bangladesh's market share both in terms of deposits and loans and advances has been found to be very small in comparison to other banks. The banking industry of Bangladesh (excluding inter-bank and Government deposits; comprised of 61 scheduled banks consisting of 6 State-Owned Commercial Banks, 3 specialized banks, 9 foreign banks, and 43 Private Commercial Banks including 10 Islamic banks) has a total deposit of Tk.15,880.11 billion with 4.99% of growth and Tk.14,228.85 billion with 14% of growth as an loan/investment as on December 31, 2022.

The total deposits portfolio of HBL Bangladesh stood at Tk.6.56 billion in YE2022 against Tk.5.22 billion in YE2021. The loans and advances of HBL Bangladesh stood at Tk.5.19 billion in YE2022 against Tk.4.07 billion in YE2021. Based on the above, HBL Bangladesh held a 0.04% market share of deposits and 0.04% market share of loan & advances as on December 31, 2022 against the almost same market share of deposits and loan & advances as on December 31, 2021. The deposit growth of HBL was 25.64% whereas the industry growth was of 4.99% indicating higher growth than industry and the growth rate of loans & advances of the bank was 27.70% against industry growth rate of 14% in YE2022. The above scenario reveals that the bank's market position in terms of deposit and loan & advances has been insignificant.

The non-funded business performance of the bank stood at Tk.3.72 billion in YE2022 against Tk.3.11 billion in FY2021. The import business decreased to Tk.2.64 billion in YE2022 from Tk.3,13 billion in YE2021. However, the export business increased to Tk.0.66 billion in YE2022 against Tk.0.44 billion in YE2021. The total remittance of the bank stood at Tk.0.42 billion in 2022 against Tk.0.09 billion in 2021.

3.0 INDUSTRY ANALYSIS

3.1 Economy Projection

The overall banking sector showed a mixed performance in Q2FY23, as evidenced by a reduction of the ratio of non-performing loans (NPLs) to total loans, a declining trend in the growth of both bank advances and deposits, a deterioration in maintaining provision, and a deceleration of excess liquidity in the banking system. The banking Industry in Bangladesh is still passing through a critical time to control increased and hidden NPL and manage capital adequacy.

Though Bangladesh has successfully managed COVID 19 situation due to high rate of massive vaccination and imposition of lockdown along with other regulatory policy measures (monetary & fiscal), the rising food & non-food inflation in both local and global economy, supply chain disruption centering ongoing war between Russia & Ukraine , rising interest rates by major central banks around the globe, and recent financial sector turmoil market amid posed a fresh threat to both local and international economy.

Despite many hurdles and shortcomings Bangladesh's gross domestic product (GDP) grew 7.1 per cent in FY 2022 against 6.94 per cent in the fiscal year 2021. However, the multilateral lender IMF in its latest report of World Economic Outlook April 2023 has kept its projection of Bangladesh economy growth unchanged in line with its earlier projection in January 2023 and forecasted that GDP growth rate of Bangladesh may stand at 5.5% in FY2023 against the Government target of 6.5%. However, another international development bank -World Bank (WB) in its recent released report of Global Economic Prospects January 2023 projected that In Bangladesh, growth is expected to slow to 5.2 percent in FY2022/23 due to rising inflation and its negative impact on household incomes and firms' input costs, as well as energy shortages, import restrictions, and monetary policy tightening.

Another multilateral development bank ADB in its latest report of Asian Development Outlook April 2023 forecasted that Bangladesh's gross domestic product (GDP) is expected to grow by 5.3% in fiscal year (FY) 2023. ADB's slower growth forecast reflects subdued domestic demand and weaker export expansion due to slow global growth following the Russian invasion of Ukraine and rising Inflation (8.7% in FY2023). The main risk to this growth projection is a greater economic slowdown in Bangladesh's major export destinations driven by global uncertainty over the prolonged political tensions.

Md. Asaduzzaman Khan
Chief Executive Officer
Credit Rating Information and Services Limited

CREDIT RATING REPORT
On
HABIB BANK LIMITED - Bangladesh Operations

3.2 Sector at year-end 2022

Although key major indicators registered nominal improvement year on year basis (mainly due to flexibility & relaxation in loan classification and rescheduling at nominal down payment with extended tenure to combat the ongoing macroeconomic challenges) overall banking sector's health was at challenging state. Huge classified loan and stressed assets continued to become the major source of concern. Though central bank has taken a number of steps and policy measures to curb the situation, public confidence that has been marginalized with the public reporting of loan scam in few banks and subsequent deposit withdrawals yet to be restored. Non-performing loan (NPL) in the banking sector decreased in Q2FY23. On the other hand, the growth of advances (around 14%) was higher than deposit growth (5%) resulting in a rise in the overall advance-deposit (ADR) ratio in Q2FY23. Banking sector in the country maintained a comparatively lower Surplus Liquidity all the year round compared to previous year.

3.3 Major Issues and Public Confidence

The overall scenario of the banking sector in Bangladesh still remained volatile and facing moderate level of turbulence with multiple challenges in area of weak governance, poor asset quality, dwindling profitability, declining interest rate spread, marginal capital adequacy, excess liquidity and poor risk management especially in SCBs and specialized banks. All these together contributed for lack of confidence in public mind and caused prolonged liquidity crunch after scam in some scheduled commercials banks and non-bank financial institutions.

3.4 Asset Quality

Extending credit to potential economic sectors without harming the asset quality and to generate competitive business growth and comfortable earnings were major challenges as usual for overall banking sector like previous years. Non-performing loan remained the grave concern in the industry. Asset quality of State owned commercial banks & specialized banks registered slight downturn in CY 2022 compared to CY 2021 despite central bank's relaxation of loan classification and flexible rescheduling support.

However, the Non-Performing Loan (NPL) in the banking sector observed an improvement in Q2FY23, mostly due to favorable loan repayment policies confronting the ongoing macroeconomic stress. The ratio of gross NPLs to total loans declined and reached 8.16 percent at the end of Q2FY23 from 9.36 percent at the end of Q1FY23. The gross NPLs ratio in the SCBs and PCBs edged down to 20.28 percent and 5.13 percent, respectively at the end of Q2FY23 from 23.04 percent and 6.20 percent, respectively at the end of Q1FY23. Moreover, NPLs ratio of FCBs and SBs marginally grew to 4.91 percent and 12.80 percent, respectively at the end of Q1FY23 from 4.77 percent and 11.80 percent, respectively in the previous quarter. The ratio of net NPLs to total loans also declined to 0.08 percent at the end of Q2FY23 from 0.90 percent at the end of Q1FY23, reflecting narrowed provision shortfall compare to previous quarter of Q1FY23. Total Classified loan of banking sector stood at Tk. 1206.57 billion with provision shortfall of Tk. 110.09 billion at Q2, FY2023. Non-performing loan in state owned commercial banks and specialized banks remained worse than industry average.

3.5 Capital Adequacy

The overall performance of the banking sector in terms of capital adequacy was not satisfactory. The overall capitalization of the banking system registered slight improvement in Q2FY23 as per Basel norm as the capital to risk-weighted assets ratio (CRAR) edged up to 11.83 percent at the end of Q2FY23 against 11.08 percent at the end of Q2FY22. The PCBs' capital-to-risk-weighted assets ratio (CRAR) rose to 13.80 percent at the end of Q2FY23 from 12.72 percent at the end of Q1FY23, indicating adequate capitalization. Although the CRAR of SCBs inched up to 6.26 percent at the end of Q2FY23 from 6.18 percent at the end of Q1FY23, maintained below the minimum capital requirement. However, the overall CRAR modestly increased to 11.83 percent at the end of Q2FY23 from 11.01 percent at the end of Q1FY23.

3.6 Profitability

The banking sector's profitability witnessed an improved in Q1FY23 compared to Q1FY22, as reflected by an uptick in both return on asset (ROA) and return on equity (ROE), mostly

Md. Asaduzzaman Khan
Chief Executive Officer
Credit Rating Information and Services Limited

CREDIT RATING REPORT
On
HABIB BANK LIMITED - Bangladesh Operations

stemmed from a significant rise in non-interest income originated from exchange gain. Moreover, the net profit of the banking industry increased to BDT 92.91 billion In Q1FY23 from BDT 72.29 billion in Q1FY22.The overall return on Assets (RoA) went up marginally to 0.53 percent in Q1FY23 from 0.44 percent in Q1FY22. In addition, return on equity (RoE) increased to 9.48 percent in Q1FY23 from 7.42 percent in Q1FY22. The RoA and RoE for SCBs increased to 0.15 percent and 3.92 percent in Q1FY23 from -0.1 percent and -0.14 percent in Q1FY22, respectively. However, RoA and RoE of the PCBs decreased to 0.59 percent and 9.45 percent in Q1FY23 from 0.66 percent and 10.01 percent at the end of Q1FY22, respectively.

3.7 Liquidity
The liquidity conditions in the banking sector remained adequate but the sector witnessed a deceleration of excess liquidity because of a host of reasons such as continuous dollar sales by the Bangladesh Bank, declining remittance trend, growing inflationary pressure. In addition, hike in BB's policy rates to curb inflationary pressure also has impact on liquidity in banking sector. The surplus liquidity in the banking sector has further declined to BDT 1457.28 billion at the end of Q2FY23 from that of BDT 1703.2 billion at the end of Q1FY23, partly due to BB's intervention to the foreign exchange market by selling USD emanating from the Russia-Ukraine war and higher demand for credit. The excess liquidity- the excess of CRR and SLR as a percent of total demand and time liabilities (TDTL) has declined to 8.6 percent at the end of Q2FY23 from 10.2 percent at the end of Q1FY23. The gap of growths between bank's deposits and bank's advances widened significantly at the end of Q2FY23. Although, bank's advances maintained a moderate growth of 14.1 percent at the end of Q2FY23, bank's deposit growth further deteriorated. The bank's deposit growth fell to 5.6 percent at the end of Q2FY23 from 7.8 percent at the end of Q1FY23, reflecting weaker saving owing from high inflationary pressure. Consequently, the overall advance-deposit ratio (ADR) rose to 79.00 percent in end-December 2022 from 76.23 percent in end-September 2022 and remained broadly stable.

** Q1FY23- September Quarter of FY2022-23, ** Q2FY23- December Quarter of FY2022-23

4.0 CORPORATE GOVERNANCE

4.1 Management Committee (MANCOM)
Being a branch operation of HBL Pakistan, HBL Bangladesh has no Board of Directors in Bangladesh. The highest authoritative body in Bangladesh is the Management Committee (MANCOM). MANCOM is headed by the Country Manager of the bank. The management committee consists of Country Manager and different Departmental Heads. MANCOM is responsible for setting up local policies as well as for monitoring and controlling the risks of the bank. MANCOM designs the internal control structure and monitors the adequacy and effectiveness of the internal control and compliance system. The committee held 09 meetings during 2022 against 13 meetings during 2021 to deal with various issues that include inspection reports of the Head Office and Bangladesh Bank, branch wise performance analysis, establish and review strategy to meet targets, strategic business planning and analysis etc. Being a branch of a foreign bank in Bangladesh, HBL Bangladesh has no Executive Committee and Audit Committee. However, internal control activities of the bank are looked after by the Risk Compliance and Control Unit (RCCU) as well as by the Internal Audit.

Experienced management team

4.2 Delegation of Power
During the surveillance period in YE2022, Habib bank's management has continued with the same authority. Country Manager and Country Risk Manager have the delegated authority for credit approval jointly to the extent of USD 2.00 million for credit limits and Country Manager solely has USD1.00 million approval authority against cash secured line. Credit limits beyond the local delegation are forwarded to Head Office at Pakistan for approval.

4.3 Human Resources Management
The Bank follows standard procedure for recruitment, promotion and training. HBL Bangladesh follows structured service manuals and compensation packages for its workforce at all levels. The bank provides various long-term benefits like Provident Fund, Gratuity, and Long-Term Service Awards for its eligible staff. The total human resource of the bank stood at 70 staff in YE2022 against 86 staff in YE2021. The bank arranged several training programs for the

Md. Asaduzzaman Khan
Chief Executive Officer
Credit Rating Information and Services Limited

CREDIT RATING REPORT
On
HABIB BANK LIMITED - Bangladesh Operations

employees through different learning programs. Training Needs Assessment (TNA) is an ongoing exercise of HBL Bangladesh. This is a mandatory requirement for all staff to provide TNA during annual performance review exercise. Based on the training requirements submitted in the online performance review session, functional heads arrange one-one meeting with the employees to finalize the staff wise training requirements. Functions also considers functional, organizational and regulatory training requirements prior to submission of the staff wise training requirements to HR. HR summarizes the annual training plan for each staff, arranges approval and submit the plan to Learning and Development function of Head Office to ensure timely implementation. HR also tracks on the implementation and shares periodic update/dashboard with functional heads for their monitoring and support for implementation of TNA.

4.4 IT Infrastructure and Its Use in MIS

The Bank has separate IT Department locally apart from central IT at Head office, Karachi to manage Local IT infrastructure. To ensure smooth banking business of Bangladesh Operations, HBL Bangladesh looks after Local IT Management, Local Software Management, Vendor Management, IT Governance and Compliance of IT Policy, User Support and Services Management whereas Core Systems (e.g. Core Banking and related Core Systems) are centralized in Head Office, Karachi, Pakistan.

Good IT Infrastructure

HBL Bangladesh IT Department maintains performance level agreement and 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. Network management is another major part of HBL Bangladesh IT that ensures smooth and secured data transmission among branches as well as Head Office, Karachi, Pakistan. For tracking on service issue, HBL Bangladesh IT uses an Incident Management system to log the Incident and for monitoring and governance, Head Office central incident management team publishes report monthly. Local IT Department reviews and ensures that appropriate controls and security standards are in place and in compliance with group IT and regulatory requirements. Moreover, Risk Assessment, vulnerability assessment and penetration testing on various IT systems are performed to identify and mitigate operational risks.

HBL Bangladesh has Online Internet Banking services along with 2FA authentications for Fund Transfer between HBL to HBL. In terms of Real Time Gross Settlement (RTGS) and National Payment Switch Bangladesh (NPSB), HBL Bangladesh IT developed a strong communication structure with the central bank. Moreover, the HBL Bangladesh payment system is PCI DSS compliant. HBL Bangladesh IT ensures infrastructure e.g. virtual servers, network switches/routers, windows, PC/Laptop, ATM etc. are upgraded from time to time to maintain its standard and security and smooth customer service. HBL Bangladesh has its DR (disaster recovery) site at HBL Motijheel Branch from where HBL has the capability to deal with their valued client during Disaster. Apart from this, all HBL branches have defined BCP site to keep continue branch operations of the respective branch during any disaster situation. Through rolling out virtualization system at Primary and DR site, Business Data and application are performing Real Time synchronization and users can avail that data at DR site during any disaster at Primary Site. Also VLAN has been implemented for DR site as well. Moreover, bandwidth has been increased for all communication links of HBL Bangladesh to cater smooth operation specially during DR situation. HBL Bangladesh performs disaster recovery testing yearly to ensure disaster recovery site readiness. HBL has upgraded the version of its CBS system from 3.8 to 4.3 as a part of development of the CBS. Some locally hosted application like Auto KYC and eKYC have also been upgraded during last quarter.

To advance the IT department, HBL has taken some initiatives. HBL has implemented Misys OPICS for Treasury and operation, implement Centralized Account Opening (CAO) system through BT project. To comply with the Bangladesh FIU (Financial Intelligence Unit) requirement and ensure Accurate and Error Free data submission to BFIU, HBL Bangladesh is enhancing goAML module for XML report generation as per the prescribed format of BFIU.

Md. Asaduzzaman Khan
Chief Executive Officer
Credit Rating Information and Services Limited

CREDIT RATING REPORT
On
HABIB BANK LIMITED - Bangladesh Operations

5.0 RISK MANAGEMENT

The bank follows a structured risk management procedure in all risk areas according to BB guidelines. The bank's risk management policy defines the relationship between the risk management philosophy process and procedure. In response to the directives of BB, HBL Bangladesh has been performing Risk Management Objectives through the Risk Management Department and Integrated Risk Management Committee to look after core risk areas in banking operations. The Integrated Risk Management Committee of HBL consists of nine members apart from invites, and the committee Chaired by Mr. Muhammad Selim Barkat, Country Manager. The Committee sits for at least once every month.

As a part of the regulatory requirement, the bank submitted its Internal Capital Adequacy Assessment Process (ICAAP) document for the year 2022. As per ICAAP, total capital requirement stood at Tk.4,094.50 million of which Tk.4,000.00 million is for minimum capital requirement under Pillar-1 and the remaining Tk.161.50 million for additional capital requirement under Pillar-2. Out of the total additional capital requirement, Tk.160.00 million is for strategic risk and Tk.1.50 million is for residual risk (capital charge mainly for documentation error under residual risk). As strategic risk is part of operational risk, the only addition to operational risk will be considered under pillar 2 capital charge. The capital charge for operational risk is Tk.67.00 million. So, net capital charge under pillar 2 is Tk.161.50 million. It is evident from the above that the bank has still adequate capital surplus of Tk.436.60 million to absorb the existing risk factors.

Habib Bank has been following the guideline on the "Internal Credit Risk Rating System (ICRRS) for Banks" for credit risk assessment and decision making as per BRPD circular 16 on October 30, 2018. This system started from August 01, 2019. In this connection, a strong ICRRS implementation team has been developed that has been trained which was organized by Bangladesh Institute of Bank Management (BIBM). The purpose is to identify the risk of the portfolio and minimizing the bank risk and so far, no proposal has been entertained without ICRR.

5.1 Credit Risk Management

To secure Loans and Advances, HBL Bangladesh is following the Bangladesh Bank guidelines and Group Risk Management policies. The credit presentation package/appraisal report is prepared by Relationship Managers and it is forwarded to the Risk Manager for further processing after approval from the Business Head. The bank makes thorough analysis of credit proposals. The bank focuses on financial position, line of business, market position, relationship status with the bank, purpose of loan, sectoral exposure, SWOT analysis and credit history of the clients. No loan and advances is sanctioned against shares. The bank also makes industry analysis which aids their investment decision. The core principle of credit approval is that at least 3 authorized personnel are required for all credit approvals out of which one signatory must belong to the respective business function and one from independent risk management with credit approval authority (CAA) equal to or greater than the aggregate credit amount being approved. The third signatory can be a CAA holder or Credit Initial Authority (CIA) holder from risk management/business. Loans cases beyond the credit approval authority delegated to local CAA holders are forwarded to Head Office for approval. The credit relationships are reviewed and re-approved annually. Risk Management also checks whether all loan assets have been appropriately classified, rated and required provision are made. Besides, the loan documentations are reviewed time to time for detection of any error. If an error in documentation is identified, the bank takes corrective measures for rectification and also address the matter under residual risk while conducting ICAAP.

While reviewing the risk weight wise distribution of on balance sheet exposure under credit risk as on December 31, 2022, it was revealed that 59.23% of the exposures falls under 0% risk category, 25.84% under 20% risk category, 6.79% under 50% risk category, 0.22% under 75% risk category, 3.79% under 100% risk category, 0.22% under 150% risk category and 3.91% under Credit Risk Mitigation (CRM). The above information reveals that major exposure of the bank falls relatively under low risk category. Considering the corporate exposure, 100% of total corporate exposure is rated. In consideration of SME exposure, 100% of total SME exposure is unrated. However, these ratings need to be updated through surveillance by ECAIs to keep the same use worthy.

Md. Asaduzzaman Khan
Chief Executive Officer
Credit Rating Information and Services Limited

CREDIT RATING REPORT
On
HABIB BANK LIMITED - Bangladesh Operations

5.2 Asset Liability Management (ALM)

HBL Bangladesh has prepared and approved written guidelines for Assets Liability Management in line with the Bangladesh Bank ALM guideline. The Asset-Liability Management Committee (ALCO) has been formed with 8 members and is headed by Country Manager as Chairman. ALCO conducted 13 meetings 2022 against 12 meetings during 2021 as per company rule and Central Bank guideline with the key agenda on targeted asset-deposit ratio, interest rate on deposits and loan, product line expansion and bank pricing. The ALCO is responsible for balance sheet risk management. The committee sets and reviews ALM strategies on monthly basis. The main responsibilities of ALCO are to assess the overall performance of money market activities, manage liquidity and interest rate risks, analysis of economic and market dynamics such as competition and target markets. The committee also sets the dealer's authorized limit and deposit pricing strategy.

5.3 Operational Risk Management

5.3.1 Internal Control and Compliance (ICC)

The Three Lines of Defense (3LoD) model is extensively cited as an effective risk management model across the globe. The Bank is committed to implement an entity wide 'Three Lines of Defense' model that ensures a clear segregation of responsibilities between day-to-day operations, monitoring and oversight, as well as independent assurance to achieve effective governance. HBL BD Compliance Program is based on a well-defined three lines of defense model supported by effective processes to mitigate the compliance risks.

HBL BD utilizes the three-lines-of-defense model to manage compliance risk while having firm adherence to its compliance risk appetite. This model represents the strategic implementation of the compliance risk management framework. At each line of defense there needs to be risk governance guidance to support CRM framework.

The assurance functions that exist in the second and third lines of defense are a critical component of this model. In connection with its ownership of compliance risk, the first line (business/operations) monitors and evaluates the effectiveness of its controls on an ongoing basis. The second-line Compliance function utilizes a risk-based approach to evaluate the effectiveness of compliance controls through ongoing monitoring and planned testing. Finally, the third-line Internal Audit function employs a systematic approach to evaluate and improve the effectiveness of risk management, controls, and governance processes, including those related to compliance risk management.

The bank's business units, support and back-office operations functions act as the First Line of Defense and are responsible for identifying, managing, and mitigating compliance risks as part of day-to-day operations.

HBL BD Compliance & RCCU act as Second Line of Defense and provides advice, educates, guides, supports, monitors, and challenges to the First Line of Defense to ensure compliance risks are identified and managed. Compliance is also responsible to closely coordinate with other risk management functions of the bank to monitor the adequacy and efficacy of compliance risk controls.

The Third Line of Defense is the bank's Internal Audit function. Their role is to provide independent and objective assurance and consulting activities designed to add value and improve on the bank's operations.

The 3rd Line of Defense brings a systematic, disciplined approach to assess and improve the effectiveness of compliance risk management controls to accomplish its objectives. It also independently reviews the effectiveness of First and Second Lines of defense.

At a centralized level, a dedicated Central Compliance Committee (CCC) is in place to improve governance and oversight of the critical areas such as regulatory directives implementation, comply with regulatory findings, tracking timely submission of regulatory reporting, coordinating regulatory inspection etc. The observations raised by the Bangladesh bank inspection team, Bangladesh Financial Intelligence Unit and External Audit teams are reviewed

Md. Asaduzzaman Khan
Chief Executive Officer
Credit Rating Information and Services Limited

and continuously followed-up by local and International Compliance and closure is validated by Internal Audit for effective resolution. Compliance team ensures that all the circulars and guidelines circulated/ published by Bangladesh Bank and BFIU are properly disseminated to the stakeholders and monitored for compliance.

5.3.2 Prevention of Money Laundering

Compliance and Operational standards have always been at the Centre of Habib Bank Limited's priorities in Bangladesh and globally. We acknowledge that we must constantly work to identify and understand the potential risks of money laundering and terrorist financing, and implement appropriate processes to mitigate, and ultimately alleviate, such risks. For this purpose and to enhance supervision and risk mitigation in AML/CFT arena, HBL undertook a global initiative under the umbrella of Business Transformation ("BT") program which is a multiyear change initiative centered around four main pillars i.e., Governance, People, Process and Technology relating to Financial Crime Risk. HBL Bangladesh is an inseparable part of this program aiming to cover but not limited to; digitalization of account opening process including KYC, implementation of new automated Customer risk rating methodology, enhancement of transaction monitoring system e.g., optimization / addition of new scenarios, etc. and sanction screening system, integration of sanction screening with core banking system for real time automated customer on boarding screening and automation of MIS, etc. BT program has been started in Bangladesh in Q4, 2020 and some part of the project the bank has already completed i.e., implementation of new upgraded version of its Transaction monitoring system which has gone live in May 2021 and SWIFT Message auto screening system which has gone Live in July 2021. Automation of the sanction name screening process for account opening, portfolio screening and transaction monitoring process already completed. HBL BD has already implemented the eKYC system as instructed by Bangladesh Financial Intelligence Unit as per the BFIU Circular 25, dated January 8, 2020. HBL BD has also implemented the New Customer KYC Risk Scoring Methodology into the KYC system as per BFIU Circular 26, dated June 16, 2020, and implemented the Trade KYC system as per BFIU Circular 24, dated December 10, 2019.

HBL recognizes its obligation to cooperate with and support regulators and law enforcement agencies in their efforts to prevent, detect and control financial crime, and to comply with AML laws and regulation to ensure that the financial channels are not used by that money launderers and terrorist organizations for illicit purposes. HBL Bangladesh has also worked to ensure that the Bank has proper policies, processes, and controls in place to deter money laundering and other financial crimes against the bank, its clients, and stakeholders. HBL Bangladesh has done the alignment and review of AML/CFT related policies and procedures to ensure they cover all aspects of local regulatory requirements including Trade Based Money-Laundering to comply with the Bangladesh Financial Intelligence Unit's (BFIU) instructions and development of Financial Crime Risk Assessment document.

5.4 Market Risk

Major market risks arise from changes in Interest Rate, Equity Financing and Foreign Exchange rate. The position of HBL, Bangladesh in terms of market risk is as follows:

5.4.1 Interest Rate risk

HBL Bangladesh has several strategies to hedge the interest rate risks. Their highest maturity period of fixed term deposit is one year with the provision of readjusting interest rate monthly which keeps them in comfortable position in case of any interest rate fluctuation. Moreover, in case of long-term financing the bank has the provision of re-pricing the loan sanctioned to the clients having trade business with the bank.

5.4.2 Equity and Commodity Financing Risk

Equity risk arises from investment in stock market or purchasing equity of any listed company. The bank is not exposed to equity risk as it has no investment in capital market.

Md. Asaduzzaman Khan
Chief Executive Officer
Credit Rating Information and Services Limited

CREDIT RATING REPORT
On
HABIB BANK LIMITED - Bangladesh Operations

5.4.3 Foreign Exchange Risk

Foreign Exchange Risk arises due to a change in market prices of FX. The risks are measured and monitored by the Treasury Department. As per Bangladesh Bank guideline, HBL Bangladesh developed and implemented Treasury Investment Policy for foreign exchange risk management in line with Bangladesh Bank Foreign Exchange Risk Management guideline. Roles and responsibilities of Treasury front office, back office and mid office have been segregated as per Central Bank's guidelines. The Bank has set dealer's, Stop Loss limit and counter party limit to manage the FX risk. The foreign exchange risk of the bank is insignificant as all the foreign exchange transactions are carried out on behalf of the customers against L/C commitments and remittance requirements. To avoid unexpected losses from FX transactions, HBL Bangladesh does not involve in speculative business. Bangladesh Bank has sanctioned the Net Open Position (NOP) limit of USD 8.18 million. At the same time, bank's internal NOP limit is USD 1.7 million for FX operation in Bangladesh. As on 31 December 2022, the net open position of HBL Bangladesh was positive of USD 1.45 million. The bank's policy does not allow off-premises and after office hours dealing.

HBL Bangladesh maintains various Nostro accounts with different banks in other countries in order to settle export, import and remittance transactions. All Nostro accounts are reconciled on daily basis and the bank submits the report to Bangladesh Bank and Head Office on monthly basis for their review and monitoring.

6.0 PERFORMANCE

6.1 Financial Performance

The overall financial performance of HBL improved during the period due to a significant increase in interest income, investment income and other income, decrease in interest paid on deposit and borrowings as well as decrease in provision for income tax. Moreover, the bank is expecting that the financial position will be the upward move with maintaining sustainable growth in the upcoming years. CRISL evaluates the financial performance in terms of Return on Average Asset (ROAA), Return on Average Equity (ROAE) and Net Interest Margin (NIM) etc.

Moderate financial performance

During the year 2022, total operating income increased to Tk.563.76 million against the Tk.412.74 million in YE2021. The operating income consisted of 11.43% net interest income,76.37% investment income, 11.20% commission exchange & brokerage income and remaining 1% from other operating income. On the other hand, operating expenses increased to Tk.358.25 million in YE2022 compared to Tk.345.05 million in YE2021 due to increase in rent, taxes and electricity, stationery, printing and advertisement expenses. After considering all, the operating profit before provision improved to Tk.205.51 million in YE2022 against Tk.67.68 million in YE2021. Net profit before tax of the bank stood at Tk.200.02 million in YE2022 against Tk.76.06 million in YE2021.

Due to the above reasons, Net profit after tax of HBL turned into positive amount of Tk.102.57 million in YE2022 against negative of Tk.50.55 million in YE2021.

In resulted, Return on Average Asset after tax (ROAA) and Return on Average Equity (ROAE) turned into positive of 0.83% and 2.29% in 2022 against negative 0.43% and negative 1.14% in 2021 respectively. Moreover, Net Interest Margin (NIM) increased to 3.30% in 2022 against 1.90% in 2021.

Moreover, the bank has reported an operating income of Tk.162.20 million against operating expenses of Tk.105.90 million as on March 31, 2023. Consequently, the bank made a net profit of Tk.58.31 million as on March 31, 2023. Total loan and advances decreased to Tk.4,662.93 million as on March 31, 2023 against Tk.5,191.92 million as on December 31, 2022. The deposit base increased to Tk.6,973.89 million as on March 31, 2023 from Tk.6,564.20 million as on December 31, 2022.

Md. Asaduzzaman Khan
Chief Executive Officer
Credit Rating Information and Services Limited

CREDIT RATING REPORT
On
HABIB BANK LIMITED - Bangladesh Operations

6.2 Operating Efficiency

Moderate operating efficiency

The overall operating efficiency has still been found to be moderate with improving trend. The operating efficiency is reviewed in terms of operating income, operating expenses, cost-to-income ratio. Operating income increased to Tk.563.76 million in 2022 against Tk.412.74 million in 2021 indicating 36.59% growth. The operating expenses increased to Tk.358.25 million in 2022 from Tk.345.05 million of the prior year. The efficiency ratio of HBL improved to 63.55% in 2022 against 83.60% in 2021 for which the bank has to capital charged off Tk.40.00 million as per ICAAP.

7.0 ASSET MANAGEMENT

Moderate asset quality

The total asset of the bank increased by Tk.1,762.22 million to TK.13,285.87 million in 2022 from TK.11,523.65 million in 2021. The above assets base has been financed by deposits and other accounts 49.41%, the capital fund from parent and other reserve of 34.03%, other liabilities of 15.88% and 0.68% of borrowing from other banks, FIs and agent as on December 31, 2022.

NPL ratio 9.42%

The asset quality of the HBL has been found to be moderate. Total loan & advances of the bank stood at Tk.5,191.92 million in 2022 against Tk.4,065.77 million in 2021. On the other hand, the non-performing loan of the bank increased to Tk.489.17 million in 2022 against Tk.395.39 million in 2021. Total non-performing loan was found in only bad/loss category (100%). Gross NPL ratio of HBL decreased at 9.42% in YE2022 compared to 9.72% in YE2021. As per the guidelines of ICAAP, the bank had to charge off the capital of Tk.40.00 million as high NPL ratio. After considering the specific provision and interest suspense against the classified loan, the net NPL increased to 1.15% in YE2022 from negative of 1.13% at YE2021. The recovery from top-20 defaulters is not satisfactory.

The gross NPL coverage decreased to 96.62% at YE2022 against 119.26% at YE2021. Top 20 default clients held 100% of the total classified loan and all are of bad/loss status. The recovery rate from classified loan stood at 3.83% for which the bank requires additional capital of Tk.40.00 million as per ICAAP of 2022. It is noted that most of the non-performing loan were classified more than five years back and businesses were closed. The bank wants to reach settlement agreements with consideration for liquidation of collateral through judicial process. Apart from legal actions, the recovery team is following up through in person visit, telephonic conversations and persuading the client for out of court settlement as well as the bank management is reviewing the strategy on a timely manner.

7.1 Sectoral Concentration

Significant non-performing loan in trade & commerce

Total Loans & Advances portfolio of HBL is concentrated on 17.49% of term loan facilities (Tk.908.13 million), 45.38% of short-term loan (Tk.2,355.43 million), 29.95% of Overdraft (Tk.1,554.88 million), 5.09% Trust Receipt (Tk.264.10 million), 1.00% Staff Loan (Tk.52.25 million), 0.79% of CC (Tk.40.81 million), 0.20% FPAD (Tk.10.75 million) and 0.10% LIM (Tk.4.67 million) as on December 31, 2022. The bank has a total 59.31% of industrial advances, 39.68% of customers group and the remaining 1.01% in Staff loans categories indicating high loan concentration on corporate exposure. As a part of strategy plan, the bank is now open to longer-term loan exposure that would minimize portfolio volatility and increase the total loan book by utilizing its network reference. The clients are on boarding baked by strong security like SB LC, Parental support/Corporate Guarantee in addition to other security documents. The bank has planning to reduce the top-20 borrowers' concentration from 96.73% in 2022 to 85.35% in 2023. In the industrial sector, highest loan disbursed to others sectors (56.56%) followed by, food and allied industries (23.29%), chemicals and pharmaceuticals industries (9.36%), general traders (6.86%), metals and allied industries (3.66%) and automobile, textiles industries and transportation equipment industries (0.27%) as on December 31, 2022. While reviewing sectoral NPL in 2022, it was revealed that classified loan & advances pie mostly comprised of trade & commerce (73.36%) followed by RMG (2.20%) and other general loans (24.44%). It is a matter of concern that top 20 borrowers held 96.73% of a total loan & advance of the bank in 2022 and 3 clients are on bad and loss category as on December 31, 2022.

Md. Asaduzzaman Khan
Chief Executive Officer
Credit Rating Information and Services Limited

CREDIT RATING REPORT
On
HABIB BANK LIMITED - Bangladesh Operations

As on December 2022, outstanding amount of loan which were disbursed to Dhaka Division (83.74%) followed by Chattogram Division (14.78%) and the rest are in Sylhet Division (1.48%). The bank holds a significant investment in Dhaka and Chattogram division due to business localization and branch concentration.

7.2 Large and Rescheduled Loan

The Bank has 56.00% large loan exposure as on December 31, 2022 against 42.42% of the prior year. Total outstanding large loan (above 10% of total capital) of Habib bank stood at Tk.2,907.88 million as on December 31, 2022 covering 4 clients. As on 31 December, the total rescheduled loan was stood at Tk.263.5 million.

7.3 Off Balance Sheet Exposure

Total off-balance sheet exposure of HBL Bangladesh increased to Tk.5,341.03 million as on December 31, 2022, against Tk.3,990.00 million as on December 31, 2021. The Off-Balance Sheet items comprised of 49.97% letters of guarantee, 21.09% other contingent liabilities, 15.94% acceptances and endorsements, 9.82% irrevocable letter of credit, 2.60% Bill for Collection and 0.58% documentary credit and short-term trade related transactions as on December 31, 2022. It is noted that letters of guarantee significantly increased by Tk.848.99 million which positively impacted on total off-balance sheet exposure. While reviewing the risk weight-wise classification of the credit equivalent of off-balance sheet exposure, it was revealed that total risk weighted assets (RWA) for off-balance sheet exposure stood at Tk.1,142.89 million as on December 31, 2022.

While reviewing the risk weight wise distribution of off-balance sheet exposure under credit risk as on December 31, 2022, it was revealed that 34.44% falls under 20% risk category, 48.86% under 50% risk category, 0.00% under 100% risk category and 16.70% under 125% risk category. Among the RWA for credit risk off-balance exposure of Tk.1,142.89 million, it has been found that 16.70% were unrated.

8.0 CAPITAL ADEQUACY

Good capital adequacy

HBL Bangladesh has been maintaining good capital adequacy. Under risk-based capital adequacy framework of Basel-III, total RWA of the bank decreased to Tk.3,635.19 million as on December 31, 2022 (of which 76.97% emanated from credit risk, 18.44% from operational risk and rest 4.59% from market risk) against Tk. 5,917.98 million as on December 31, 2021 (of which 88.71% emanated from credit risk, 10.33% from operational risk and rest 0.96% from market risk). Against the above, the regulatory capital stood at TK.4,531.15 million. The CRAR of the bank increased significantly 124.65% as on December 31, 2022 (74.72% in 2021) due to decrease in risk weighted assets. The CRAR on core capital (Tier-1) stood at 122.90%. The higher CRAR of the bank is due to the bank's conservative approach as well as the significant deployment of assets under low-risk category and good capital support from the parents. Moreover, the internal capital generation ratio turned into positive of 2.41% in YE2022 against negative 3.15% in YE2021. The leverage ratio of the bank stood at 29.34 times as on December 31, 2022.

Stress Testing Analysis

The following table shows the sensitivity of risk factors on CAR

Indicators	Magnitude of Sensitivity (Minor to Major Shock Level)
Negative Shift in NPL's Categories	0.06 ~ 3.41
Decrease in the FSV of the collateral	0.06 ~ 0.25
Increase in NPLs	1.22 ~ 4.42
Interest Rate	-7.79 ~ -23.36
FEX: Currency Depreciation/ Appreciation	0.05 ~ 0.16
Equity Shock	0.00 ~ 0.00
Total Change	**-6.40 ~ -15.12**
CRAR After Shock (%)	**118.25~109.53**

Md. Asaduzzaman Khan
Chief Executive Officer
Credit Rating Information and Services Limited

CREDIT RATING REPORT
On
HABIB BANK LIMITED - Bangladesh Operations

The bank is in a comfort zone as it has been maintaining a high level of CRAR which will give cushion in any adverse business situation.

9.0 LIQUIDITY AND FUNDING

9.1 Liquidity

Good liquidity

The overall liquidity of the bank has been found to be good. Moreover, HBL Bangladesh has been maintaining Cash Reserve Ratio (CRR) and Statutory Liquidity Requirement (SLR) in line with the Bangladesh Bank requirement. The CRR and SLR requirement was TK.242.98 million and TK.789.68 million as on December 31, 2022 against which HBL Bangladesh kept TK.249.65 million and TK.5,988.43 million respectively. The bank kept surplus of Tk.6.67 million and Tk.5,198.75 million for CRR and SLR respectively as on December 31, 2022. The liquid asset ratio of HBL stood at 99.02% in 2022 against 115.47% in the previous year. At the same time, the advance to deposit ratio of the bank increased to 78.27% in 2022 against 76.91% in 2021. The loan to deposit & equity ratio stood at 46.83% in YE2022 compared to 42.15% in YE2021. Maximum Cumulative Outflow (MCO) and Liquidity Coverage Ratio (LCR) stood at 13.32% (whereas highest limit is 20% of the total inflows) and 144.63% (greater than or equal to 100%) respectively as on December 31, 2022. Moreover, the Net Stable Funding Ratio (NSFR) stood at 100.48% (higher than 100%) as on December 31, 2022.

The maturity analysis of assets and liabilities revealed that HBL Bangladesh has an unfavorable gap in one maturity buckets of (Up to 1) month. Overall gap analysis results in a net liquidity surplus of Tk.4,521.70 million. Hence it is expected that the bank will be able to meet its obligations with sufficient cumulative surplus. The operating cash flow stood at Tk.438.15 million in YE2022 against negative of Tk.623.70 million in YE2021 due to significant increase in deposits from customers.

9.2 Fund Management

Total funds of HBL Bangladesh mainly consisted of equity funds (34.03%), deposits and other accounts (49.40%) and other liabilities (15.88%) and 0.69% of borrowing from other banks, FIs and agent as on December 31, 2022. The total deposit consisted of 57.68% term deposit, 33.38% current and other deposit, 7.99% saving deposit, and 0.95% bills payable as on 31 December 2022. The top 20 depositors held 71.28% of total deposits as on 31 March 2023 which indicates concentration on few clients. As said earlier, HBL is in the position to augment the low cost of funding mix through the cash management concept. The overall cost of funds decreased to 3.57% in 2022 against 4.19% in 2021. Habib Bank is mainly dependent on customer deposit which is interest rate sensitive.

10.0 OBSERVATION SUMMARY

Rating Comforts:	Rating Concerns:
• Good capital adequacy • Good liquidity • Good IT infrastructure • Experienced management team • Good support from parent	• Moderate asset quality • Lower profitability, operating efficiency and recovery • Fluctuating trend in deposit • Dominance in high cost of funding mix • Exposed to sectoral concentration risk • Small scale of operation
Business Opportunities:	**Business Challenges:**
• Product diversification • Portfolio diversification in low risk category business segment including SME • Client rating to consolidate and enhance capital base of the bank	• Maintain spread • Maintaining stability of the exchange rate of taka • Impact of Russia-Ukraine War in the local and global economy • Regularize in recovery performance • Increasing trend in classified loan/investment in the industry

Md. Asaduzzaman Khan
Chief Executive Officer
Credit Rating Information and Services Limited

CREDIT RATING REPORT
On
HABIB BANK LIMITED - Bangladesh Operations

11.0 PROSPECTS

Despite a moderation of global economic growth outlook, a broad-based growth momentum across the economy continued in Bangladesh economy during the first two quarters of FY23, hinging upon the performance of the agriculture and service-related sectors aided by supportive monetary and government policy measures. Economy maintained a broad-based growth momentum in H1FY22, aided by timely policy support, better management of the pandemic situation, and upbeat business confidence.

Having many hurdles and challenges, Bangladesh Economy registered a growth of 7.1% in FY2021-22, 6.94% in FY2020-21 against 3.45% in FY2019-2020, 7.88% in FY2018-19 and 7.32% in FY2017-18. Bangladesh has been graduating to a middle income one after passing 42 years as a least developed country. The government has been implementing massive development works in light of the "Vision-2021"and "Vision-2041" with an objective to become an upper middle-income country. Amid a recent rise in global commodity prices, the headline CPI inflation started to soften from the recent highs mainly because of the global impact of falling commodity and fuel prices. However, the inflation remained above the revised targeted level of 7.50 percent in Q2FY23. In the last month of Q2FY23, point-to-point headline inflation came down to 8.71 percent on the back of declining food prices as the local market started to transmit the impact of global food and fuel price decline. The current account deficit (CAD) continued to narrow down since Q4FY22 and stood at USD 1.71 billion (0.36 percent of GDP) in Q2FY23, reflecting a reduced trade gap on the back of increasing export earnings and decreasing import growth to negative territory. The financial account faced a shortfall in Q2FY23, driven mainly by trade credit and other short term loan repayments. The shortfall in the financial account resulted in a moderate widening of the overall balance of payment (BoP) deficit to USD 3.72 billion in Q2FY23, which created some depreciation pressure on the BDT. To reduce the exchange rate volatility, Bangladesh Bank injected USD 4.24 billion (net) into the foreign exchange market during Q2FY23. Consequently, the gross official reserve declined to USD 33.75 billion at the end of December 2022.

Md. Asaduzzaman Khan
Chief Executive Officer
Credit Rating Information and Services Limited

CREDIT RATING REPORT
On
HABIB BANK LIMITED - Bangladesh Operations

A slowdown of deposit growth in tandem with an increase in domestic credit growth and BB's liquidity rationalizing measures led to a decline in liquidity in the banking system. Consequently, interest rates in the inter-bank money market increased during this period. Classified loan in banking sector may soar in coming days along with provision shortfall with the waiver of relaxation policy. SCBs, SDBs and PCBs have to devise appropriate strategy and measure to recover classified loan and to make the operation profitable & sustainable. Both SCBs and SDBs will require to take adequate steps and measures to address the issue of capital shortfall. After a rally in last several months, the capital market witnessed huge moderation in FY2022-23, reflected in a downturn in price indices, market capitalization, price-earnings ratio, and turnover. Despite the regulatory intervention and motivational direct policy support by central bank, scheduled banks' earning through direct investment or through its subsidiary operations (like brokerage house, merchant bank and asset management company) from capital market may not be up to the mark. Newly licensed commercial bank will still struggle to make a comfortable presence in the banking sector while other major scheduled banks will face the challenge of rein in increasing non-performing loan. Banking sector performance which largely depends on country's macro-economic fundamentals and global economic environment is likely to face challenges to keep its current stable position though the government is managing relatively well against the impact of external adversities and has embarked on the reform programs as precautionary measures. Private investment growth will be lower because of energy shortages and higher production costs. With a shortfall in revenue collection, austerity measures, and depleting foreign exchange reserves, public investment growth will also be slower.

END OF THE REPORT

(Information used herein is obtained from sources believed to be accurate and reliable. However, CRISL does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities. All rights of this report are reserved by CRISL. Contents may be used by news media and researchers with due acknowledgement)

[We have examined, prepared, finalized and issued this report without compromising with the matters of any conflict of interest. We have also complied with all the requirements, policy procedures of the BSEC rules as prescribed by the Bangladesh Securities and Exchange Commission.]

Md. Asaduzzaman Khan
Chief Executive Officer
Credit Rating Information and Services Limited

CREDIT RATING REPORT
On
HABIB BANK LIMITED - Bangladesh Operations

12.0 CORPORATE INFORMATION

Date of Incorporation: **August 25, 1941**

Commencement of Business in Bangladesh: **July 10, 1976**

CURRENT MANAGEMENT IN BANGLADESH:

Name	Designation
Mr. Muhammad Selim Barkat	Country Manager
Mr. Mohammad Fayaz Moula	Country Head-Liability & Cash Management
Mr. Mohammad Fazlul Qader	Head – Treasury
Mr. Shahabuddin Ahmed	Country Risk Manager
Mr. Syed Mohammad Ali Shakoor	Head - Financial Institutions
Mr. Mohammad Nazmul Huq Bhuiyan, FCA	Head – Finance
Mr. Kazi Mahbub Hasan	Head - Compliance & CAMLCO
Mr. A.S.M. Sakhawat Hossain Khan	Head-Country Operations
Mr. Md. Rafiqul Islam	Head - Human Recourses

Statutory Auditor: **Rahman Rahman Huq**
Chartered Accountants

Capital History:

Year	Capital fund deposited with Bangladesh Bank (Million Tk.)	Rate of Increase (%)	Source of Paid- up Capital
2002	371.18	-	Head Office
2003	373.22	0.55	Revaluation
2004	383.42	2.66	Revaluation
2005	1042.62	63.23	Head Office
2006	1079.17	3.39	Revaluation
2007	1079.17	-	-
2008	1387.73	22.23	Head Office
2009	2347.02	69.13	Head Office
2010	3048.16	29.87	Head Office
2011	4234.95	37.39	-
2012	4146.02	(2.09)	Foreign Exchange Rate
2013	4,054.50	(2.21)	-
2014	4,062.96	0.21	-
2015	4,086.89	(0.59)	-
2016	4,096.67	0.24	-
2017	4,265.16	4.11	-
2018	4,316.21	1.20	-
2019	4,358.76	0.99	-
2020	4,360.88	0.05	-
2021	4,360.88	-	-
2022	4,360.88	-	-

Md. Asaduzzaman Khan
Chief Executive Officer
Credit Rating Information and Services Limited

CREDIT RATING REPORT
On
HABIB BANK LIMITED - Bangladesh Operations

13.0 FINANCIAL INFORMATION

A. Balance Sheets as on December 31

(Figures in million tk.)

Particulars'	2022	2021	2020
Cash in Hand	82.87	72.43	62.06
Cash with BB and Other Banks/FIs	489.80	470.31	607.27
Cash with Other Banks/FIs	22.36	983.59	1,522.54
Money at Call and Short Notice	103.29	85.80	200.00
Investment in Securities (Govt.)	5,890.81	4,628.53	4,312.22
Total Investment	**5,890.81**	**4,628.53**	**4,312.22**
Total Loans, Adv. and Bills	**5,191.92**	**4,065.77**	**4,019.28**
Fixed Assets	171.52	74.61	98.36
Other Asset	1,333.30	1,142.61	1,083.15
Total Assets	**13,285.87**	**11,523.65**	**11,904.88**
Inter-Bank Borrowing	90.00	180.00	---
Current A/Cs and Others A/Cs	2,191.06	1,288.61	1,078.14
Bills Payable	61.85	64.46	16.02
Savings Bank Deposits	524.44	451.76	564.04
Term Deposits	3,786.86	3,419.76	4,120.89
Deposits and Other A/C	**6,564.20**	**5,224.58**	**5,779.10**
Other Liabilities	2,109.97	1,696.96	1,656.03
Total Outside Liabilities	**8,764.17**	**7,101.54**	**7,435.14**
Capital Fund	4,360.88	4,360.88	4,360.88
Revaluation Reserve	53.17	55.13	52.20
Retained Earning	107.64	6.10	56.65
Shareholders' Equity	**4,521.70**	**4,422.11**	**4,469.74**
Total Liabilities and Stockholders' Equity	**13,285.87**	**11,523.65**	**11,904.88**

B. Income Statements for the year ended on December 31

(Figures in million tk.)

Particulars	2022	2021	2020
Interest Income	279.53	225.10	391.93
Interest Paid on Deposit and Borrowings	215.12	238.52	355.83
Net Interest Income	**64.41**	**(13.42)**	**36.11**
Investment Income	430.56	386.11	339.83
Fee, Commissions, Exchange and Brokerage	63.14	37.42	54.70
Other Non-Int. Income	5.65	2.62	2.50
Total Non-Int. Income	**499.35**	**426.15**	**397.02**
Total Operating Income	**563.76**	**412.74**	**433.13**
Salary, Allowance and other benefit	176.48	174.85	162.02
Other Operating Expenses	181.77	170.21	144.89
Total Operating Expenditure	**358.25**	**345.05**	**306.91**
Profit/Loss before Provisions	**205.51**	**67.68**	**126.22**
Provision for Unclassified Loans	2.71	(89.59)	93.60
Provision for Classified Loans	(1.69)	84.62	25.17
Provision for others	4.47	(3.40)	2.93
Total Provisions	**5.49**	**(8.38)**	**121.70**
Net P/L Before Taxes	**200.02**	**76.06**	**4.53**
Provision for Tax	97.45	126.62	61.46
Net P/L After Taxes	**102.57**	**(50.55)**	**(56.93)**

Md. Asaduzzaman Khan
Chief Executive Officer
Credit Rating Information and Services Limited

CREDIT RATING REPORT
On
HABIB BANK LIMITED - Bangladesh Operations

CRISL RATING SCALES AND DEFINITIONS
LONG-TERM – BANKS

RATING	DEFINITION
AAA Triple A (Highest Safety)	Bank rated in this category is adjudged to be of best quality, offer highest safety and have highest credit quality. Risk factors are negligible and risk free, nearest to risk free Government bonds and securities. Changing economic circumstances are unlikely to have any serious impact on this category of banks.
AA+, AA, AA- (Double A) (High Safety)	Bank rated in this category is adjudged to be of high quality, offer higher safety and have high credit quality. This level of rating indicates a corporate entity with a sound credit profile and without significant problems. Risks are modest and may vary slightly from time to time because of economic conditions.
A+, A, A- Single A (Adequate Safety)	Bank rated in this category is adjudged to offer adequate safety for timely repayment of financial obligations. This level of rating indicates a corporate entity with an adequate credit profile. Risk factors are more variable and greater in periods of economic stress than those rated in the higher categories.
BBB+, BBB, BBB- Triple B (Moderate Safety)	Bank rated in this category is adjudged to offer moderate degree of safety for timely repayment of financial obligations. This level of rating indicates that a bank is under-performing in some areas. These entities are however, considered to have the capability to overcome the above-mentioned limitations with special care and cautious operation. Risk factors are more variable in periods of economic stress than those rated in the higher categories.
BB+, BB, BB- Double B (Inadequate Safety)	Bank rated in this category is adjudged to lack of key protection factors, which results in an inadequate safety. This level of rating indicates a bank as below investment grade but deemed likely to meet obligations when due. Overall quality may move up or down frequently within this category.
B+, B, B- Single B (Risky)	Bank rated in this category is adjudged to be with high risk. Timely repayment of financial obligations is impaired by serious problems which the entity is faced with. Whilst an entity rated in this category might be currently meeting obligations in time, continuance of this would depend upon favorable economic conditions or on some degree of external support.
CCC+,CCC, CCC- Triple C (Vulnerable)	Bank rated in this category is adjudged to be with vulnerable protection factors. This rating indicates that the degree of certainty regarding timely payment of financial obligations is doubtful unless circumstances are favourable.
CC+,CC, CC- Double C (Highly Vulnerable)	Bank rated in this category is adjudged to be with high vulnerable position. This rating indicates that the degree of certainty regarding timely payment of financial obligations is quite lower unless overall circumstances are favourable or there is possibility of high degree external support.
C+, C, C- (Near to Default)	Bank rated in this category is adjudged to be with near to default in timely repayment of financial obligations. This type rating may be used to cover a situation where a insolvency petition has been filed or similar action has been taken, but payments on the obligation are being continued with high degree of external support.
D (Default)	Bank rated in this category is adjudged to be either currently in default or expected to be in default. This level of rating indicates that the entity is unlikely to meet maturing financial obligations and calls for immediate external support of a high order.

For long-term ratings, CRISL assigns + (Positive) sign to indicate that the issue is ranked at the upper-end of its generic rating category and - (Minus) sign to indicate that the issue is ranked at the bottom end of its generic rating category. Long-term ratings without any sign denote mid-levels of each group.

SHORT-TERM – BANKS

ST-1	**Highest Grade** Highest certainty of timely payment. Short-term liquidity including internal fund generation is very strong and access to alternative sources of funds is outstanding, Safety is almost like risk free Government short-term obligations.
ST-2	**High Grade** High certainty of timely payment. Liquidity factors are strong and supported by good fundamental protection factors. Risk factors are very small.
ST-3	**Good Grade** Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Although ongoing funding needs may enlarge total financing requirements, access to capital markets is good. Risk factors are small.
ST-4	**Moderate Grade** Moderate liquidity and other protection factors qualify issues as to invest grade. Risk factors are larger and subject to more variation.
ST-5	**Non-Investment Grade** Speculative investment characteristics. Liquidity is not sufficient to insure against disruption in debt service. Operating factors and market access may be subject to a high degree of variation.
ST-6	**Default** Issuer failed to meet scheduled principal and/or interest payments.

Md. Asaduzzaman Khan
Chief Executive Officer
Credit Rating Information and Services Limited