# CREDIT RATING REPORT
# On
# HABIB BANK LIMITED - Bangladesh Operations

## REPORT: RR/79268/24

*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 12, 2024 | Valid up to: June 11, 2025 | |
|---|---|---|
| | Long Term | Short Term |
| Surveillance Rating | AA- | ST-2 |
| Outlook | Stable | |

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

***Outlook**: Stable*

***HABIB BANK LIMITED - Bangladesh Operations***

***ACTIVITY***
*Commercial Banking*

***COMENCEMENT OF OPERATION***
*1976*

***Regional General Manager- Bangladesh, Sri Lanka & Maldives***
*Muhammad Selim Barkat*

***TOTAL ASSETS***
*Tk.13,900.82 million*

***TOTAL EQUITY***
*Tk.4,707.62 million*

***TOTAL LOANS & ADV.***
*Tk.5,319.18 million*

## 1.0 RATIONALE

CRISL has reaffirmed "AA-" (pronounced as double A minus) rating in the Long Term and "ST-2" rating in the Short Term to Habib Bank Limited-Bangladesh Operations (HBL Bangladesh). The above ratings have been reassigned after an in-depth analysis of the operational and financial performance of the bank up to December 31, 2023 and March 31, 2024 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, significant credit concentration in corporate exposure and top-20 depositors, moderate 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. 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 1,756 plus branches and around 2,327 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 19.64 billion in YE2023 against USD 16.46 billion in YE2022 and loans & advances stood at USD 6.60 billion at YE2023 against USD 6.32 billion at YE2022. HBL has achieved credit rating of "AAA" in long term and "A-1+" in short term by VIS Credit Rating Company Limited. 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.13.90 billion at YE2023 against Tk.13.29 billion at YE2022 and loan & advances stood at Tk.5.32 billion at YE2023 against Tk.5.19 billion at YE2022. Currently, Mr. Muhammad Selim Barkat, Regional General 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.

For Chief Executive Officer
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Chief Rating Officer
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### 2.2 Ownership Pattern and control

The shareholding position of HBL has remained almost the same during the period under surveillance. As per December 31, 2023; The Aga Khan Fund for Economic Development holds the majority of the shares (56.58%) followed by foreign companies (9.83%), CDC Group PLC (4.99%), Bank, Financial Institutions and others (1.93%), Insurance companies (3.17%), General Public both local and foreign (6.50%), Associated Companies (5.21%), Directors, Chief Executive officer, Executives and their Spouse and Minor Children (0.27%), NIT and ICP (0.10%), Mutual Fund (1.53%) and the rest are held by others (9.89%). HBL Bangladesh has been continuing its operation in Bangladesh as foreign branches 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 Regional General Manager is responsible for its Bangladesh operations.

### 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 seven 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 value to the services of the bank. The bank continues its focus on fixed deposits under the deposit portfolio indicating high cost of funding mix. In the loan portfolio, the bank continues its focus on local corporate lending apart from network based lending. HBL Bangladesh is in process of establishing Off-Shore Banking Unit at Chattogram Branch to on-board export customers and support trade business to the EPZs and non-EPZs customers.

The management of the bank has also developed a "Product based Model" concept through strategic initiatives attracting low cost operating balances from its existing and prospective clients under changing business model where CASA (Current and Savings Account) deposit will be promoted gradually, diminishing the dependency on high cost 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 (unit of currency of China) denominated trade and cash management transactions and major source of RMB liquidity in the local market.



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### 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.17,491.32 billion with 10.15% of growth and Tk.15,752.47 billion with 10.71% of growth in loan/investment as on December 31, 2023.

The total deposits portfolio of HBL Bangladesh stood at Tk.7.20 billion in YE2023 against Tk.6.56 billion in YE2022. The loans and advances of HBL Bangladesh stood at Tk.5.32 billion in YE2023 against Tk.5.19 billion in YE2022. Based on the above, HBL Bangladesh held a 0.04% market share of deposits and 0.03% market share of loan & advances as on December 31, 2023 against the almost same market share of deposits and loan & advances as on December 31, 2022. The deposit growth of HBL was 9.71% whereas the industry growth was of 10.15% indicating lower growth than industry and the growth rate of loans & advances of the bank was 2.45% against industry growth rate of 10.71% in YE2023. 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.3.81 billion in YE2023 against Tk.3.72 billion in FY2022. The import business decreased to Tk.1.77 billion in YE2023 from Tk.2.64 billion in YE2022. However, the export business increased to Tk.0.97 billion in YE2023 against Tk.0.66 billion in YE2021. The total remittance of the bank stood at Tk.1.07 billion in 2023 against Tk.0.42 billion in 2022.

## 3.0 INDUSTRY ANALYSIS

### 3.1 Industry and Economy Projection

The overall banking sector showed a mixed performance in Q2FY23, as evidenced by a decline in non-performing loan (NPL) ratio, moderation in banking sector capital adequacy, downturn in banking industry's earnings, improvement in maintaining provision, a moderate growth of both banks' advances and deposits, 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, manage capital adequacy and establish good governance in overall bank management.

Though Bangladesh has successfully managed COVID 19 situation through 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) declined to 6.03 (provisional) per cent in FY2023 against 7.1 per cent in FY2022 and 6.94 per cent in the fiscal year 2021.

According to the World Bank's Global Economic Prospects Report (January 2024) Bangladesh economic growth is forecast to slow to 5.6 percent in FY2023/24 (July 2023 to June 2024). Inflation is likely to remain elevated, weighing on private consumption. As foreign exchange reserves are likely to stay low, import restrictions are expected to continue and impede private investment. In contrast, public investment is envisaged to remain resilient. Growth is expected to rise in FY2024/25 as inflationary pressure recedes. IMF in its World Economic Outlook (April 2024) projected that the economy would grow by 5.7 percent in 2023-24, lower than the 6 percent forecast in October. The GDP projection was 6.5 percent initially by IMF. However, another multilateral development bank ADB in its latest report of Asian Development Outlook April 2024 forecasted that Bangladesh's GDP is expected to grow by 6.1 percent in the 2023-24 fiscal year (FY), ending on 30 June 2024.



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### 3.2 Sector at year-end 2023
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. Significant 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 withdrawal is yet to be restored.

### 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, stressed 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 the banking sector registered some improvement at the end of CY2023 due to central bank's relaxation policy of loan rescheduling.

At the end of Q2FY24, the non-performing loans (NPLs) in the banking sector exhibited positive developments, with the gross NPL to total loan ratio declining to 9.00 percent from 9.93 percent at the end of Q1FY24. Significant recoveries in state-owned commercial banks (SCBs) and private commercial banks (PCBs) provided the main impetus for this development. Both SCBs and PCBs witnessed reductions in their gross NPL ratios, with SCBs dropping to 20.99 percent and PCBs to 5.93 percent at the end of Q2FY24, compared to 21.70 percent and 7.04 percent at the end of Q1FY24, respectively. Foreign Commercial Banks (FCBs) also showed improvement, with their NPL ratio declining to 4.82 percent at the end of Q2FY24 from 5.07 percent at the end of Q1FY24. However, Specialized Banks (SBs) saw an increase in their gross NPL to total loan ratio, increasing to 13.87 percent at the end of Q2FY24 from 12.10 percent at the end of Q1FY24. Additionally, the ratio of net NPL to total loan experienced a slight decline from 1.22 percent at the end of Q1FY24 to 0.59 percent at the end of Q2FY24. This reduction is indicative of a narrowed provision shortfall compared to the previous quarter of Q1FY24. Total Classified loan of banking sector stood at Tk.1,456.33 billion with provision shortfall of Tk.192.61 billion at Q2FY2024.

### 3.5 Capital Adequacy
The overall performance of the banking sector in terms of capital adequacy was not satisfactory. Both SCBs and Specialized Banks have significant capital shortfall. The PCBs' capital-to-risk-weighted assets ratio (CRAR) increased slightly to 12.82 percent at the end of Q1FY24 from 12.81 percent of at the end of Q4FY23. On the other hand, the CRAR of SCBs declined to 6.03 percent at the end of Q1FY24 from 6.76 percent at the end of Q4FY23. Consequently, the overall CRAR decreased to 11.08 percent at the end of Q1FY24 from 11.19 percent in the previous quarter.

### 3.6 Profitability
The banking industry's profitability witnessed some moderation at the end of Q2FY24 compared to Q2FY23, as shown by a decline in both return on assets (ROA) and return on equity (ROE). The overall ROA and ROE reduced to 0.59 percent and 10.55 percent at the end of Q2FY24 from 0.62 percent and 10.67 percent at the end of Q2FY23, respectively. Furthermore, the ROA for SCBs has remained unchanged compared to the end of Q2FY23 and ROE improved to 4.78 percent at the end of Q2FY24 from 4.55 percent at the end of Q2FY23. In addition, ROA and ROE for the PCBs also declined to 0.62 percent and 10.13 percent at the end of Q2FY24 from 0.71 percent and 11.04 percent at the end of Q2FY23, respectively.

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### 3.7 Liquidity

The banking sector experienced tight liquidity conditions in Q2FY24, partially attributed to a contractionary monetary policy and consistent interventions by the BB in the foreign exchange market. At the end of Q2FY24, excess liquidity went down to BDT 1,633.05 billion from BDT 1,644.40 billion compared to the end of Q1FY24. The excess liquidity, represented by the surplus of the statutory liquidity ratio (SLR) as a percent of total demand and time liabilities (TDTL), experienced a modest decline to 8.90 percent at the end of Q2FY24 from 9.2 percent of Q1FY24. The banking sector has witnessed a consistent upward trajectory in deposit growth over the past few quarters, primarily driven by the competitive deposit interest rates offered by commercial banks. By the end of December 2023, bank deposits had reached their highest level in recent periods, marking a growth of 10.44 percent, up from 9.12 percent at the end of September 2023. Despite higher lending interest rates, the growth of bank advances saw a slight increase, reaching 10.24 percent at the end of Q2FY24, compared to 9.76 percent at the end of Q1FY24. Consequently, the overall advance-deposit ratio (ADR) experienced an uptick, reaching 80.38 percent by the end of December 2023, up from 78.08 percent at the end of September 2023, maintaining a stable trend.

## 4.0 CORPORATE GOVERNANCE

### 4.1 Management Committee (MANCOM)

*Experienced management team*

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 Regional General Manager of the bank. The management committee consists of Regional General 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 12 meetings during 2023 against 09 meetings during 2022 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.

### 4.2 Delegation of Power

During the surveillance period in YE2023, Habib bank's management has continued with the same authority. Regional General 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 Regional General 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 76 staff in YE2023 against 70 staff in YE2022. The bank arranged several training programs for the 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.



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### 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.

A new NIKASH-EFT Solution has been introduced by Bangladesh Bank which has replaced existing EFT functionality of PBM application of BACH-II (Bangladesh Bank Automated Clearing House). In this context bank has purchased server, Linux based OS, HSM device and Software. Currently EFT (Electronic Fund Transfer) is being done through DMS/IMAGO solution (provided by local vendor). This solution processes both Cheque images and EFT).

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## 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, Regional General 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 2023. As per ICAAP, total capital requirement stood at Tk.5,222.90 million of which Tk.5,000.00 million is for minimum capital requirement under Pillar-1 and the remaining Tk.222.90 million for additional capital requirement under Pillar-2. Out of the total additional capital requirement, Tk.300.00 million is for strategic risk and Tk.2.80 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.79.90 million. So, net capital charge under pillar 2 is Tk.222.90 million. It is evident from the above that the bank has deficit capital of Tk.524.00 million.

Habib Bank has been following the guideline on the "Internal Credit Risk Rating System (ICRRS) for Banks" for credit risk assessment and decision making. 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, 2023, it was revealed that 57.35% of the exposures falls under 0% risk category, 25.19% under 20% risk category, 6.72% under 50% risk category, 0.15% under 75% risk category, 5.42% under 100% risk category, 1.29% under 125% risk category, 0.10% under 150% risk category and 3.78% 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, 99.58% 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.



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### 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 Regional General Manager as Chairman. ALCO conducted 13 meetings each during 2023 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 and continuously followed-up by local and International Compliance and closure is validated



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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 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.

### 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



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segregated as per Central Bank's guidelines. The Bank has set dealer's limit, deal ticket size, swap funds 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 2023, the net open position of HBL Bangladesh was negative of USD 1.08 million against positive of USD 1.45 million in YE_2022. 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

*Improving financial performance*

The overall financial performance of HBL improved during the period due to a significant increase in interest income and investment income. Though provision for classified loan has increased significantly but higher profit before provision turned to higher net profit after tax. CRISL evaluates the financial performance in terms of Return on Average Asset (ROAA), Return on Average Equity (ROAE) and Net Interest Margin (NIM) etc.

During the year 2023, total operating income increased to Tk.666.65 million against the Tk.555.05 million in YE2022. The operating income consisted of 14.56% net interest income, 76.08% investment income, 8.40% commission exchange & brokerage income and remaining 0.95% from other operating income. On the other hand, operating expenses increased to Tk.396.10 million in YE2023 compared to Tk.349.54 million in YE2022 due to increase salaries and allowances and depreciation and repairs of bank's assets. After considering all, the operating profit before provision improved to Tk.270.54 million in YE2023 against Tk.205.51 million in YE2022. Net profit before tax of the bank stood at Tk.247.96 million in YE2023 against Tk.200.02 million in YE2022. After all, Net profit after tax of HBL improved to Tk.165.33 million in YE2023 against Tk.102.57 million in YE2022.

Accordingly, Return on Average Asset after tax (ROAA) and Return on Average Equity (ROAE) stood at 1.22% and 3.58% in 2023 against 0.83% and 2.29% in 2022 respectively. Moreover, Net Interest Margin (NIM) increased to 1.57% in 2023 against 1.13% in 2022.

Moreover, the bank has reported an operating income of Tk.211.01 million against operating expenses of Tk.107.36 million as on March 31, 2024. Consequently, the bank made a net profit of Tk.49.44 million as on March 31, 2024. Total loan and advances increased to Tk.5,845.72 million as on March 31, 2024 against Tk.5,319.18 million as on December 31, 2023. The deposit base decreased to Tk.6,827.99 million as on March 31, 2024 from Tk.7,201.32 million as on December 31, 2023. The management of the bank is expecting that overall profit, deposit and loans and advances will be increased to Tk. 285.2 million, Tk. 8,809.3 million and Tk. 670.6 million respectively in the year 2024.

### 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.666.65 million in 2023 against Tk.555.05 million in 2022 indicating 20.11% growth. The operating expenses increased to Tk.396.10 million in 2023 from Tk.349.54 million of the prior year. The efficiency ratio of HBL still high which stood at 59.42% in 2023 against 62.97% in 2022 for which the bank has to capital charged off Tk.50.00 million as per ICAAP.

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## 7.0 ASSET MANAGEMENT

The total asset of the bank increased by Tk.614.95 million to TK.13,900.82 million in 2023 from TK.13,285.87 million in 2022. The above assets base has been financed by deposits and other accounts 51.80%, the capital fund from parent and other reserve of 33.87%, other liabilities of 14.33% as on December 31, 2023.

*Moderate asset quality*

The asset quality of the HBL has been found to be moderate. Total loan & advances of the bank stood at Tk.5,319.18 million in 2023 against Tk.5,191.92 million in 2022. Out of total loans and advances, HBL has 70.57% from corporate exposure & 28.56% from SME exposure. Besides, the non-performing loan of the bank decreased to Tk.352.81 million as on December 31, 2023 against Tk.489.17 million in 2022 due to written off of Tk.134.70 million. Total non-performing loan was found in only bad/loss category (100%). Consequently, Gross NPL ratio of HBL decreased at 6.63% in YE2023 compared to 9.42% in YE2022. Moreover, Gross NPL ratio stood at 6.02% (Tk.351.80 million) as on March 31. 2024. As per the guidelines of ICAAP, the bank had to charge off the capital of Tk.50.00 million as high NPL ratio. After considering the specific provision and interest suspense against the classified loan, the net NPL decreased to 0.55% in YE2023 from 1.15% at YE2022.

*NPL ratio 6.63%*

The gross NPL coverage increased to 93.16% in YE2023 against 84.88% at YE2022. Top 20 default clients held 100% of the total classified loan and all are of bad/loss status. The recovery from classified loan stood at 0.47% for which the bank requires additional capital of Tk.50.00 million as per ICAAP of 2023. 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. However, the overall recovery from classified loan and written off loan does not at satisfactory level.

### 7.1 Sectoral Concentration

*Significant non-performing loan in trade & commerce*

Total Loans & Advances portfolio of HBL is concentrated on 14.74% of term loan facilities (Tk.784.14 million), 55.21% of short-term loan (Tk.2,936.89 million), 26.44% of Overdraft (Tk.1,406.48 million), 1.68% Trust Receipt (Tk.89.30 million), 0.87% Staff Loan (Tk.46.13 million), 0.77% of CC (Tk.40.81 million), 0.20% FPAD (Tk.10.75 million) and 0.09% LIM (Tk.4.67 million) as on December 31, 2023. The bank has a total 71.40% of industrial advances, 27.73% of customers group and the remaining 0.87% 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. In 2023, outstanding exposure to top-20 borrower's is 97.70% of total loan and advances which indicating the breach of top-20 borrower's concentration limit i.e. 95%. However, the bank has planning to reduce the top-20 borrowers' concentration. In the industrial sector, highest loan disbursed to others sectors (56.82%) followed by, food and allied industries (19.27%), chemicals and pharmaceuticals industries (11.27%), general traders (4.14%), metals and allied industries ( 3.47%) and automobile, textiles industries and transportation equipment industries ( 5.00%) as on December 31, 2023. While reviewing sectoral NPL in 2023, it was revealed that classified loan & advances pie mostly comprised of trade & commerce (63.06%) followed by RMG (3.05%) and other general loans (33.89%). It is a matter of concern that top 20 borrowers held 97.7% of a total loan & advance of the bank in 2023 and 2 clients are on bad and loss category and amount stood at Tk.302.20 million as on December 31, 2023.

As on December 2023, outstanding amount of loan which were disbursed to Dhaka Division (86.33%), followed by Chattogram Division (12.19%) 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.

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### 7.2 Large and Rescheduled Loan

The Bank has 53.91% large loan exposure as on December 31, 2023 against 56.00% of the prior year. Total outstanding large loan (above 10% of total capital) of Habib bank stood at Tk.2,867.45 million (funded of Tk.186.94 million and non-funded of Tk.2,680.51 million) as on December 31, 2023 covering 4 clients against Tk.2,907.89 million (funded of Tk.689.87 million and non-funded of Tk.2,218.02 million) as on December 31, 2022. During 2023, there was no rescheduled loan.

### 7.3 Off Balance Sheet Exposure

Total off-balance sheet exposure of HBL Bangladesh stood at Tk.4,069.81 million as on December 31, 2023 against Tk.5,341.03 million as on December 31, 2022. The Off-Balance Sheet items comprised of 70.92% letters of guarantee, 9.10% other contingent liabilities, 1.67% acceptances and endorsements, 16.40% irrevocable letter of credit, 1.06% Bill for Collection and 0.85% documentary credit and short-term trade related transactions as on December 31, 2023. It is noted that acceptances and endorsements decreased to Tk.67.80 million against Tk.851.41 million which adversely 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.1,092.72 million as on December 31, 2023 against 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, 2023, it was revealed that 5.38% falls under 20% risk category, 75.44% under 50% risk category, nil under 100% risk category and 19.18% under 125% risk category. Among the RWA for credit risk off-balance exposure of Tk.1,092.72 million, it has been found that 38.20% were unrated.

## 8.0 CAPITAL ADEQUACY

*Good capital adequacy*

HBL Bangladesh has been maintaining good capital adequacy ratio but still in the process to comply the minimum capital requirement. Under risk-based capital adequacy framework of Basel-III, total RWA of the bank increased to Tk.4,167.92 million as on December 31, 2023 (of which 77.76% emanated from credit risk, 19.17% from operational risk and rest 3.07% from market risk) against 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 the above, the regulatory capital stood at TK.4,686.57 million. The CRAR of the bank stood at 112.44% as on December 31, 2023 (124.65% in 2022) due to increase in risk weighted assets. The CRAR on core capital (Tier-1) stood at 110.83%. Moreover, CRAR of the bank stood at 98.49% as on March 31, 2024. 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. It is mentionable that Bangladesh Bank increased the Minimum Capital Requirement from Tk.4,000.00 million to Tk.5,000.00 million with effective from June 2023. In this regard, HBL Bangladesh has taken deferral approval up-to December 31, 2025 from Bangladesh Bank to increase the paid up capital to Tk.5,000.00 million. Moreover, the internal capital generation ratio increased to 3.62% in YE2023 against 2.35% in YE2022. The leverage ratio of the bank stood at 1.95 times as on December 31, 2023 against 1.94 times as on December 31, 2022.

**Stress Testing Analysis**

The following table shows the sensitivity of risk factors on CRAR 112.80%.

| Indicators | Magnitude of Sensitivity (Minor to Major Shock Level) |
|---|---|
| Negative Shift in NPL's Categories | 0.02 ~ 1.01 |
| Decrease in the FSV of the collateral | 0.02 ~ 0.10 |
| Increase in NPLs | 0.64 ~ 2.20 |
| Interest Rate | -9.77 ~ -29.32 |
| FEX: Currency Depreciation/ Appreciation | 0.02 ~ 0.06 |



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| | |
|---|---|
| Equity Shock | 0.00 ~ 0.00 |
| **Total Change** | **-9.07 ~ -25.95** |
| **CRAR After Shock (%)** | **103.73~86.85** |

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.283.62 million and TK.921.76 million as on December 31, 2023 against which HBL Bangladesh kept TK.447.14 million and TK.5,971.19 million respectively. The bank kept surplus of Tk.163.52 million and Tk.5,049.43 million for CRR and SLR respectively as on December 31, 2023. The liquid asset ratio of HBL stood at 97.58% in 2023 against 99.02% in the previous year. At the same time, the advance to deposit ratio (AD ratio) of the bank decreased to 72.94% in 2023 against 78.27% in 2022 due to no significant loan disbursement for the new client rather maintaining the loan enhancement for the existing clients. The loan to deposit & equity ratio stood at 44.67% in YE2023 compared to 46.83% in YE2022. Maximum Cumulative Outflow (MCO) and Liquidity Coverage Ratio (LCR) stood at 13.99% (whereas highest limit is 20% of the total inflows) and 110.06% (greater than or equal to 100%) respectively as on December 31, 2023. Moreover, the Net Stable Funding Ratio (NSFR) stood at 119.84% (higher than 100%) as on December 31, 2023.

The maturity analysis of assets and liabilities revealed that HBL Bangladesh has an unfavorable gap in one maturity buckets of (3 to 12) months of Tk.359.63 million. Overall gap analysis results in a net liquidity surplus of Tk.4,707.62 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.579.32 million in YE2023 against of Tk.438.15 million in YE2022.

### 9.2 Fund Management

Total funds of HBL Bangladesh mainly consisted of equity funds (33.87%), deposits and other accounts (51.80%) and other liabilities (14.33%) as on December 31, 2023. The total deposit consisted of 53.30% term deposit, 39.85% current and other deposit, 6.13% saving deposit, and 0.72% bills payable as on 31 December 2023. The top 20 depositors held 68.63% of total deposits as on 31 December 2023 indicating a major concern for the bank due to concentration on few clients. Habib Bank is mainly dependent on customer deposit which is interest rate sensitive. 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 increased to 3.96% in 2023 against 3.57% in 2022. In July last year, the central bank introduced the SMART rate, withdrawing the 9 percent lending rate cap which it had imposed in April 2020. Again Bangladesh Bank scrapped the SMART formula in order to make interest rates in the banking system fully market-based as on May 08, 2024. In market-driven interest rate, the interest rate will be fixed based on the bank-client relationships and the demand for loans and the supply of loan able funds in the banking sector.

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## 10.0 OBSERVATION SUMMARY

| Rating Comforts: | Rating Concerns: |
|---|---|
| • Good capital adequacy<br>• Good liquidity<br>• Good IT infrastructure<br>• Experienced management team<br>• Good support from parent | • Moderate asset quality<br>• Significant credit concentration in corporate exposure and top-20 depositors<br>• Moderate operating efficiency and recovery<br>• Fluctuating trend in deposit<br>• Dominance in high cost of funding mix<br>• Exposed to sectoral concentration risk<br>• Small scale of operation |
| **Business Opportunities:** | **Business Challenges:** |
| • Product diversification<br>• Portfolio diversification in low risk category business segment including SME<br>• Client rating to consolidate and enhance capital base of the bank<br>• Establishment of Asset Management Company for managing the non-performing loan | • Ensuring Good Governance<br>• Increasing trend in Classified loan in the industry<br>• Low recovery performance<br>• Fluctuating US Dollar rate<br>• High inflation rate<br>• Monetary and fiscal policy coordination, consistency and implementation |

## 11.0 PROSPECTS

The Bangladesh economy demonstrated its resilience by achieving a GDP growth rate of 6.07 percent in Q1FY24 despite facing higher inflationary and exchange rate pressures. During the period, the growth rates in industry and service sectors were steady; however, there was some moderation in the growth rate of agricultural output. The Q2FY24 data is currently unavailable, but proxy variables suggest that the industry sector is expected to experience relatively slower growth in Q2FY24 in the face of a decrease in external demand due to geopolitical tensions and trade uncertainty. The agriculture sector is projected to exhibit better performance in this period, with reasonable growth targets for major rice varieties and non-rice crop production. The service sector is anticipated to maintain its moderate growth trajectory in Q2FY24. The robust rebound in remittance inflows, which increased by 22.3 percent in Q2FY24, significantly contributed to the stimulation of economic activities.

The headline point-to-point (p-t-p) CPI inflation had a slight decline from 9.63 percent at the end of Q1FY24 to 9.41 percent at the end of Q2FY24, but it remained high, peaking at 9.93 percent in October 2023. The decrease in headline inflation was attributed to a reduction in food inflation, which effectively offset the rise in non-food inflation at the end of Q2FY24. On the other hand, core inflation, which excludes food and fuel, declined to 6.64 percent at the end of Q2FY24 from 6.82 percent at the end of Q1FY24.

Amid increasing inflationary pressures, Bangladesh Bank (BB) continued to tighten the monetary policy stance by raising the policy (repo) rate twice in Q2FY24. The rate was first increased to 7.25 percent on October 5, 2023, and then again raised to 7.75 percent on November 27, 2023. In response to the tight monetary policy stance, both the call money rate and inter-bank repo rate increased from 6.41 percent and 6.55 percent in September 2023 to 8.84 percent and 8.06 percent in December 2023, respectively. BB's efficient management and timely interventions ensured that both the inter-bank repo and call money rates stayed within the predetermined interest rate corridor (±200 basis) from the policy (repo) rate. Furthermore, yields on government securities at all maturities (short, medium, and long-term) witnessed a notable rise, along with a surge in trading volume within the securities market.

The balance of payment (BoP) experienced notable improvement as the deficit reduced to USD 0.82 billion in Q2FY24 from USD 2.85 billion in Q1FY24, resulting predominantly from a substantial slump in the financial account deficit and a robust growth in remittance inflows. Despite higher secondary income, especially high inward remittance flows from migrants, the



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current account surplus declined to USD 0.81 billion in Q2FY24 from USD 1.12 billion in Q1FY24, primarily owing to a significant trade deficit. On vi the other hand, the deficit in financial account balance reduced to USD 1.31 billion in Q2FY24 from USD 4.08 billion in Q1FY24, driven by a significant increase in medium- and long-term (MLT) loans and a decrease in loan repayment.

The liquidity situation in the banking system improved in Q2FY24 because of two key factors: a rise in deposits and a slowdown in net foreign exchange sales. The banking industry also experienced some qualitative improvement in Q2FY24, reflecting a slight decrease in the ratio of non-performing loans to (NPLs) total loans. Accordingly, provision shortfall also narrowed down across the industry during Q2FY24. The overall capital adequacy ratio remained stable, while the excess of SLR went down slightly during the same period.

Looking forward, growth prospects in the remaining quarters of FY24 remain positive, portraying a picture of resilience, adaptability, and steady progress. However, this growth prospect will depend on the improvement of the country's external sector resilience. Furthermore, the persistently high inflation may necessitate the continuation of monetary tightening for an extended period in order to reduce inflation to a tolerable level.

**END OF THE REPORT**



*[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.]*

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## 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 | Regional General Manager- Bangladesh, Sri Lanka & Maldives |
| Mr. Nabil Mustafizur Rahman | Country Chief Risk Officer |
| Mr. M. Latif Hasan | Head-Corporate Banking |
| Ms. Parul Das | Chief Financial Officer |
| Mr. Kazi Mahbub Hasan | Head - Compliance & CAMLCO |
| Mr. Mohammad Fazlul Qader | Head - Treasury |
| Mr. Sakhawat Hossain Khan | Head – Country Operations |
| Mr. Mohammad Fayaz Moula | Country Head - Liability and Cash Management |
| Mr. Shahabuddin Ahmed | Head - Risk Management |

**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 | - | - |
| 2023 | 4,360.88 | - | - |

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## 13.0 FINANCIAL INFORMATION

### A. Balance Sheets as on December 31

*(Figures in million tk.)*

| Particulars' | 2023 | 2022 | 2021 |
|---|---|---|---|
| Cash in Hand | 74.05 | 82.87 | 72.43 |
| Cash with BB and Other Banks/FIs | 771.72 | 489.80 | 470.31 |
| Cash with Other Banks/FIs | 118.50 | 22.36 | 983.59 |
| Money at Call and Short Notice | 329.50 | 103.29 | 85.80 |
| Investment in Securities (Govt.) | 5,733.62 | 5,890.81 | 4,628.53 |
| **Total Investment** | **5,733.62** | **5,890.81** | **4,628.53** |
| **Total Loans, Adv. and Bills** | **5,319.18** | **5,191.92** | **4,065.77** |
| Fixed Assets | 169.92 | 171.52 | 74.61 |
| Other Asset | 1,384.34 | 1,333.30 | 1,142.61 |
| **Total Assets** | **13,900.82** | **13,285.87** | **11,523.65** |
| Inter-Bank Borrowing | --- | 90.00 | 180.00 |
| Current A/Cs and Others A/Cs | 2,869.68 | 2,196.88 | 1,288.61 |
| Bills Payable | 52.14 | 61.85 | 64.46 |
| Savings Bank Deposits | 441.56 | 518.61 | 451.76 |
| Term Deposits | 3,837.95 | 3,786.86 | 3,419.76 |
| **Deposits and Other A/C** | **7,201.31** | **6,564.20** | **5,224.58** |
| Other Liabilities | 1,991.89 | 2,109.97 | 1,696.96 |
| **Total Outside Liabilities** | **9,193.21** | **8,764.17** | **7,101.54** |
| Capital Fund | 4,360.88 | 4,360.88 | 4,360.88 |
| Revaluation Reserve | 75.41 | 53.17 | 55.13 |
| Retained Earning | 271.32 | 107.64 | 6.10 |
| **Shareholders' Equity** | **4,707.62** | **4,521.70** | **4,422.11** |
| **Total Liabilities and Stockholders' Equity** | **13,900.82** | **13,285.87** | **11,523.65** |

### B. Income Statements for the year ended on December 31

(Figures in million tk.)

| Particulars | 2023 | 2022 | 2021 |
|---|---|---|---|
| Interest Income | 377.99 | 279.53 | 225.10 |
| Interest Paid on Deposit and Borrowings | 280.90 | 215.12 | 238.52 |
| **Net Interest Income** | **97.09** | **64.41** | **(13.42)** |
| Investment Income | 507.22 | 421.85 | 386.11 |
| Fee, Commissions, Exchange and Brokerage | 56.02 | 63.14 | 37.42 |
| Other Non-Int. Income | 6.31 | 5.65 | 2.62 |
| **Total Non-Int. Income** | **569.55** | **490.64** | **426.15** |
| **Total Operating Income** | **666.65** | **555.05** | **412.74** |
| Salary, Allowance and other benefit | 221.56 | 203.73 | 201.91 |
| Other Operating Expenses | 174.55 | 145.81 | 143.14 |
| **Total Operating Expenditure** | **396.10** | **349.54** | **345.05** |
| **Profit/Loss before Provisions** | **270.54** | **205.51** | **67.68** |
| Provision for Unclassified Loans | 1.86 | 2.71 | (89.59) |
| Provision for Classified Loans | 24.30 | (1.69) | 84.62 |
| Provision for others | (3.58) | 4.47 | (3.40) |
| **Total Provisions** | **22.58** | **5.49** | **(8.38)** |
| **Net P/L Before Taxes** | **247.96** | **200.02** | **76.06** |
| Provision for Tax | 82.63 | 97.45 | 126.62 |
| **Net P/L After Taxes** | **165.33** | **102.57** | **(50.55)** |

For Chief Executive Officer
Md. Asiful Huq
Chief Rating 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. |



For Chief Executive Officer
Md. Asiful Huq
Chief Rating Officer
Credit Rating Information and Services Limited