HABIB Bank Limited
Market Discipline Disclosure Framework
As on December 31, 2014

The following detailed qualitative and quantitative disclosures are provided in accordance with Guidelines on Risk Based Capital Adequacy by Bangladesh Bank. The purpose of these requirements is to complement minimum capital requirement and Supervisory Review Process. These disclosures are intended for more transparent and more disciplined financial market where the participant can assess key information about the Bank's exposure to various risks.

The Bank has an approved disclosure policy to observe the disclosure requirement set out by Bangladesh Bank, International Financial Reporting Standard (IFRS) and International Accounting Standard (IAS) as adopted by the Institute of Chartered Accountants of Bangladesh (ICAB) into Bangladesh Financial Reporting Standard (BFRS) and Bangladesh Accounting Standard (BAS) where relevant to the Bank.

Guidelines on Risk Based Capital Adequacy are structured around the following three aspects or pillars of BASEL-II:

- Minimum capital requirement to be maintained by a bank against credit, market and operational risks;
- Supervisory Review Process i.e. process for assessing overall capital adequacy in relation to a bank's risk profile and a strategy for maintaining its capital at an adequate level; and
- Market Discipline i.e. to make public disclosure of information on the bank's risk profiles, capital adequacy and risk management.

1. Scope of Application

Qualitative Disclosures:

Bank has no subsidiaries or significant investment and BASEL-II is applied at the Bank level only.

2. Disclosure Framework:

The disclosure requirements are as per the Bangladesh Bank guidelines on Risk Based Capital Adequacy (RBCA) for Banks are stated below.

3. Capital Structure:

Qualitative Disclosure:

The Bank's Capital structure consists of Tier -I Capital and Tier-II Capital. The regulatory capital is broadly classified into three categories -Tier-I, Tier-II and Tier-III. The composition of the amount of core (Tier-I) and supplementary (Tier-II and Tier-III) capitals shall be subject to the following conditions:

- The amount of Tier-II Capital will Be limited to 100% of the amount of Tier-I Capital;
- Fifty Percent (50%) of revaluation reserves for fixed assets and securities is eligible for Tier -II capital;
- Ten Percent (10%) of revaluation reserves for equity instruments is eligible for Tier-II Capital;
- Subordinated debts shall be limited to maximum of 30% of the amount of Tier-I Capital; and
- Limitation of Tier-III: A minimum of about 28.5% of market risk needs to be supported by Tier-I capital. Supporting of Market Risk from Tier-III capital shall be limited up to maximum of 250% of a bank's Tier -I capital that is available after meeting capital requirement for credit risk.

Tier -I capital of the Bank includes fund deposited with Bangladesh Bank and retained earnings.

Tier-II (Supplementary) capital consists of general provision and 50% of revaluation reserve of Held to Maturity (HTM) and Held for Trading (HFT) securities.

The bank does not have any Tier -III capital.

Quantitative Disclosures:

As on the reporting date (31 December 2014), the Bank had a consolidated capital of BDT 4,268.24 million comprising tier 1 capital of BDT 4,174.24 million and tier 2 capital of BDT 94.01 million. Following table presents component wise details of capital (Tier I & II) as on reporting date i.e. 31 December 2014:

Amount in BDT

	2014	**2013**
Core Capital (Tier-I)		
Fund Deposited with Bangladesh Bank	4,062,955,739	4,054,552,923
Profit and Loss Account Balance	111,280,578	108,889,417
Sub-Total	**4,174,236,317**	**4,163,442,340**
Supplementary Capital (Tier-II)		
General provision maintained against unclassified loans and advances	60,020,000	60,096,000
Revaluation reserve for securities (upto 50%)	33,985,046	847,018
Sub-Total	**94,005,046**	**60,943,018**
Total	**4,268,241,363**	**4,224,385,358**

4. Capital Adequacy

Qualitative Disclosure

The Bank's approach to capital management is driven by its desire to maintain a strong capital base to support the development of its business, to meet regulatory capital requirements at all times and to maintain good ratings. HBL focuses on strengthening risk management and control environment rather than increasing capital to cover up weak risk management and control practices. HBL has been generating most of its incremental capital from retained profit to support incremental growth of Risk Weighted Assets (RWA). Besides meeting regulatory capital requirement, the Bank maintains adequate capital to absorb material risks foreseen. Therefore, the Bank’s Capital Adequacy Ratio (CAR) remains consistently within the comfort zone.

The Bank uses capital model to assess capital demand for material risks and to support its internal capital adequacy assessment. Each material risk is assessed, relevant mitigants considered and appropriate levels of capital determined. The capital modeling process is a key part of its management disciplines. A strong governance and process framework is embedded in the Bank's capital planning and assessment methodology. Overall responsibility for the effective management of risk rests with the Risk Management Committee.

HBL follows Standardized Approach for computation of capital charge for credit risk, market risk and Basic Indictor Approach is used for assessing operational risk.

Quantitative Disclosures:

Following table shows component wise allocation of capital to meet three risks and an amount of additional capital maintained over MCR i.e. 10% of RWA. As on the reporting date i.e. 31 December 2014, HBL maintained a Capital Adequacy Ratio (CAR) of 60.22% against required minimum of 10%. We had an excess capital of BDT 268.24 million after meeting all three risks as on the reporting date as shown in the following table:

Amount in BDT

Risk Weighted Assets	2014	2013
On balance sheet exposures Off-balance sheet exposures	5,080,506,685 1,359,412,948	3,726,776,518 1,105,517,479
Total Credit Risk	**6,439,919,633**	**4,832,293,996**
Market Risk	**40,387,701**	**46,184,888**
Operational Risk	**607,861,819**	**513,853,410**
Sub- Total	**7,088,169,153**	**5,392,332,294**

Capital requirement for Credit risk	643,991,963	483,229,400
Capital requirement for Market risk	4,038,770	4,618,489
Capital requirement for Operational risk	60,786,182	51,385,341
Capital Requirement	**708,816,915**	**539,233,229**
Minimum Capital Requirement according to Bangladesh Bank	**400,000,000**	**400,000,000**

Capital Adequacy Ratio	60.22%	78.34%
Tier-I Capital Adequacy Ratio	58.89%	77.21%

Risk Management

The possibility of losses, financial or otherwise, is defined as risk. The assets and liabilities of HBL Bangladesh are managed so as to minimise, to the degree prudently possible, the Bank's exposure to risk, while at the same time attempting to provide a stable and steadily increasing flow of net interest income, an attractive rate of return on an appropriate level of capital and a level of liquidity adequate to respond to the needs of depositors and borrowers and earning enhancement opportunities.

The risk management of the Bank covers all core risk areas of banking i.e. i) Credit Risk Management, ii) Foreign Exchange Risk management, iii) Assets liability Management, iv) Prevention of Money Laundering, v) Internal Control and Compliance, and vi) Information and Communication Technology risk.

Balancing risk and return: Risk is taken in support of the requirements of the Bank's stakeholders, in line with its strategy and within its appetite.

Responsibility: It is responsibility of all employees to ensure that risk-taking is disciplined and focused. The Bank takes account of its social responsibility and commitments to customers in taking risk to produce a return.

Accountability: The Bank only takes risk within agreed authorities and where there is appropriate infrastructure and resource. All risk-taking must be transparent, controlled and reported.

Anticipation: The Bank seeks to anticipate future risk and ensure awareness of all known risk.

Competitive advantage: The Bank seeks competitive advantage through efficient and effective risk management and control.

5. Credit Risk

Qualitative Disclosures:

Credit risk is the risk of loss due to the failure of a borrower to meet its credit obligations in accordance with agreed contract terms. Credit risk makes up the largest part of bank's risk exposures. The bank's credit process is guided by centrally established credit policies, rules and guidelines continuing a close-to-the market approach with an aim to maintain a well-diversified portfolio of credit risk which produces a reliable and consistent return.
Credit risk policies are established by the Credit Policy Committee and approved by the Board through its Risk Management Committee. The Bank has a system of checks and balances in place around the extension of credit. Salient features of our risk approval process are delineated below:

- Every extension of credit to any counterparty requires approval by the pre-defined level of authority.
- All business groups must apply consistent standards in arriving at their credit decisions.
- Every material change to a credit facility requires approval at the appropriate/pre-defined level
- Credit approval authority is assigned to individuals according to their qualifications and experience.

A comprehensive framework is in place for the management of counterparty credit risk. This includes a structured process for the delegation of credit approval authority and for monitoring compliance. Credit risk management function is independent of business originating functions to establish better control and check, and to reduce conflict of interest. Risk measurement along with judgment and experience play a central role in informed risk taking decisions, and portfolio management.

Potential credit losses from any given account, customer or portfolio are mitigated using a range of tools such as collateral, netting agreements, credit insurance, and other guarantees. The reliance that can be placed on these mitigants is carefully assessed in light of issues such as legal certainty and enforceability, market valuation, and counterparty risk of the guarantor.

To define past due and impairment through classification and provisioning, the bank follows Bangladesh Bank Circulars and Guidelines. The summary of some objective criteria for loan classification and provisioning requirement as stipulated by the central bank BRPD circular no. 14 dated 23 September 2012 and BRPD circularno.16 dated 18 November 2014.

Quantitative Disclosures:

Total gross credit risk exposures by major types: Bangladesh Bank guidelines on Basel II, stipulated to segregate bank's asset portfolio into different categories, and the below table shows our gross exposure in each asset category.

Amount in BDT

	2014	**2013**
Gross Credit Risk Exposures:		
Funded	11,315,884,733	6,255,239,736
Non-funded	1,087,530,359	884,413,983
Total	**12,403,415,091**	**7,139,653,719**
Distribution of Risk Exposures by Claims:		
Cash and cash equivalents	5,504,830,574	76,211,778
Claims on Sovereigns and central Bank	-	-
Claims on Banks	916,053,322	843,891,864
Claims on Corporate	3,057,481,890	1,982,715,285
Claims on small and medium enterprise	170,110,803	146,805,347
Claims on consumers loans	-	-
Claims secured by residential properties	-	-
Claims secured by commercial real state	-	-
Past due loans & NPLs	559,623,581	515,892,765
Total	**10,208,100,171**	**3,565,517,040**

Credit Risk Mitigation:		
Claims secured by financial collateral	293,102,173	631,218,993
Net exposures after the application of haircuts claims secured by eligible guarantee	13,581,656	60,176,021

Gross Non-performing Assets(NPAs)		
Non-performing asset (NPAs) to outstanding loans and advances	13.92%	15.55%
Movement of Non-performing Assets (NPAs)		
Opening balance	572,711,945	525,444,709
Net movement during the year	54,988,819	47,267,236
Closing balance	**627,700,764**	**572,711,945**
Movement of specific provision for (NPAs)		
Opening balance of specific provision	294,918,760	160,589,107
Written off during the period	-	(32,764)
Recovers during the period	(57,772,167)	(27,893,914)
Provision made during the period	118,925,540	162,256,331
Closing balance of specific provision	**356,072,133**	**294,918**

6. Equities: Disclosures for Banking book positions

The Bank does not hold trading position in equities.

7. Interest rate risk in the banking book

Discussed in the next section under market risk.

8. Market Risk

Qualitative Disclosures:

Market risk is the potential for loss of earnings or economic value due to adverse changes in financial market rates or prices. It covers interest rate risk, currency exchange rate risk, commodity price risk and equity price risk in the trading book.

Interest rate risk arises from changes in yield curves, credit spreads and implied volatilities on interest rate options. Currency exchange rate risk arises from changes in exchange rates and implied volatilities on foreign exchange options. Equity price risk arises from changes in the prices of equities, equity indices, equity baskets and implied volatilities on related options.

To manage the interest rate risk, ALCO regularly monitors various ratios and parameters. Among the ratios, the key ratios that ALCO regularly monitors are Liquid asset to total assets, Volatile liability dependency ratio, medium term funding ratio, Snap liquidity ratio and Short term borrowing to Liquid assets ratio. ALCO also regularly monitors the interest rate sensitive gap and duration gap of total portfolio.

To manage foreign exchange risk of the bank, the Bank has adopted the limit by central bank to monitor foreign exchange open positions. Foreign exchange risk is computed on the sum of net short positions or net long positions, whichever is higher of the foreign currency positions held by the Bank.

Qualitative Disclosures:

Capital required for market risk as on the reporting date follows:

Amount in BDT

	2014	**2013**
Capital Requirements For:		
Interest rate risk	575,802	275,511
Equity position risk	-	-
Foreign exchange risk	3,462,968	4,342,978
Commodity risk	-	-
Total	**4,038,770**	**4,618,489**

9. Operational risk

Qualitative Disclosures:

Operational risk is the potential for loss arising from the failure of people, process or technology or the impact of external events. It is the Banks objective to minimize exposure to operational risk, subject to cost tradeoffs. This object is ensured through a framework of policies and procedures that drive risk identification, assessment, control and monitoring at business/function, country levels.

The bank captures some pre identified risk events associated with all functional departments of the bank through standard reporting format. Bank’s Operational Risk Committee, with all these reports decides action plans to resolve risk issues by specific individual and/or group within an agreed timeline. The committee also escalates ‘high risk’ issues to Management Committee based on importance and urgency of taking effective decisions. BORC is responsible for setting and maintaining standards for operational risk management and measurement, which is separate from the business functions.

We understand that business operates in an umbrella of inter connected socio-economic and political environment. Few externalities affect business performance directly such as macro economic conditions, regulatory changes, change in demand, status of infrastructure whereas few factors affect operations of the business directly or indirectly such as force shut down due to political instability, threat of vandalism to the bank’s sophisticated physical outlets including IT equipments etc.

The bank applies ‘Basic Indicator Approach’ of Basel II as prescribed by BB in revised RBCA guidelines. Under this approach, banks have to calculate average annual gross income (GI) of last three years and multiply the result by 15% to determine required capital charge.

Quantitative Disclosures

Capital requirement for Operational risk as on 31 December 2014 is as follows

Last three year's average Gross Income (GI)	405,241,212
Capital charge required 15% of GI	60,786,182