CREDIT RATING REPORT
On
HABIB BANK LIMITED - Bangladesh Operations

REPORT: RR/93006/25

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 02, 2025	Valid up to: June 01, 2026	
	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

COMMENCEMENT OF OPERATION
1976

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

TOTAL ASSETS
Tk.14,999.38 million

TOTAL EQUITY
Tk.4,936.35 million

TOTAL LOANS & ADV.
Tk.5,538.02 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, 2024 and March 31, 2025 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, dominance in high cost of funding mix, 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. 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), which is the largest Bank in Pakistan and is engaged in commercial banking services in Pakistan and overseas. HBL started its operation in Pakistan in 1947 with the mission "To make our customers prosper, our staff excel, and create value for shareholders". As of the most recent figures, HBL Pakistan (consolidated) has a total asset size of USD 21.74 billion in YE2024 compared to USD 19.87 billion in the previous period. Loans and advances amount to USD 8.74 billion in YE2024, up from USD 6.68 billion in YE2023. HBL has achieved a credit rating of "AAA" for the long term and "A-1+" for the short term from VIS Credit Rating Company Limited, with a stable outlook on these ratings. HBL commenced its operations in Bangladesh in 1976, opening its first branch in Dhaka after obtaining the necessary permission from the Bangladesh Bank. The asset size of HBL Bangladesh stood at Tk.14.99 billion in YE2024, compared to Tk.13.90 billion in YE2023, while loans and advances rose to Tk.5.54 billion in YE2024 from Tk.5.32 billion in the previous period. The operations in Bangladesh are managed through five branches, led by Mr. Muhammad Selim Barkat, Regional General Manager. The head office of HBL is located in Karachi, Pakistan, while the Bangladesh Country Office is situated at Autograph (4th Floor), 67 & 68 Kemal Ataturk Avenue, Banani Dhaka 1213.

For Chief Executive Officer
Tanzirul Islam
Vice President
Credit Rating Information and Services Limited

CREDIT RATING REPORT
On
HABIB BANK LIMITED - Bangladesh Operations

2.2 Ownership Pattern and control

The shareholding structure of HBL has remained relatively stable during the period under surveillance. As of December 31, 2024. The Aga Khan Fund for Economic Development holds the majority of the shares at 56.58%. British International Investment 4.99%, Foreign companies with 9.85%, General Public 7.31%, Bank and Financial Institutions 4.42%, Associated Companies, Undertaking & Related Parties 7.07%, Others 9.78%.HBL Bangladesh continues to operate as a foreign branch of HBL. It has been licensed by the Bangladesh Bank (BB) to function as a branch of a foreign bank, which means there is no separate ownership for this entity. The full operations of the bank are managed and overseen by the Head Office, with the Regional General Manager responsible for operations in Bangladesh.

2.3 Operational Network

Small branch network

HBL Bangladesh is currently operating with a limited branch network. The bank has a total of five branches, which are located in Motijheel, Banani, and Uttara in Dhaka, as well as in Chattogram and Sylhet. Additionally, HBL Bangladesh has six ATM booths across the country.

2.4 Business Profile

The bank is currently operating with a limited market share but is actively working to expand its range of services and support for customers. Recent initiatives related to China Coverage have highlighted the value of the bank's services. The bank remains focused on fixed deposits within its deposit portfolio, which indicates a high-cost funding mix. In its loan portfolio, the bank prioritizes local corporate lending in addition to network-based lending. HBL Bangladesh has established an Offshore Banking Unit at its Chattogram Branch to onboard export customers and support trade for both EPZ (Export Processing Zones) and non-EPZ customers.

The bank's management has developed a "Product-based Model" concept through strategic initiatives aimed at attracting low-cost operating balances from existing and prospective clients. This is part of a shifting business model that gradually promotes CASA (Current and Savings Accounts) deposits, reducing reliance on high-cost deposits. Implementing this concept will help the bank lower its funding costs. The model also focuses on repositioning employee activities and introducing real-time services for clients through mobile banking. One key offering is the "Cash Management Product," which addresses liquidity management, receivables and payables management, utility bills, worker payments, and other relevant services for clients.

In 2020, HBL Bangladesh initiated a major restructuring of its business model. This transformation involves redefining the target market and risk acceptance criteria, concentrating on select industries where the bank intends to increase its market share. Additionally, the bank is introducing a product focus across cash management, trade finance services, and foreign exchange, which is expected to enhance cross-selling opportunities of financial products to existing and future clients, diversifying revenue streams based on acceptable risk. The new strategy also aims for portfolio diversification to mitigate concentration risk. A significant aspect of HBL Bangladesh's new business initiatives involves enhancing its connection to China. Leveraging the bank's network in China, HBL Bangladesh has established a China desk to serve Chinese companies operating in Bangladesh. The bank aims to become a leading institution in the country for RMB (Renminbi, China's currency) denominated trade and cash management transactions, positioning itself as a major source of RMB liquidity in the local market.

For Chief Executive Officer
Tanzirul Islam
Vice President
Credit Rating Information and Services Limited

CREDIT RATING REPORT
On
HABIB BANK LIMITED - Bangladesh Operations

2.5 Market Position

Small market share

HBL Bangladesh, as a foreign bank with a limited branch network, has a very small market share in terms of deposits and loans when compared to other banks. As of December 31, 2024, the banking industry in Bangladesh recorded total deposits of TK.18,837.11 billion (excluding inter-bank and government deposits) and loans and advances amounting to Tk. 17,432.36 billion. This portfolio is distributed among 61 scheduled banks, which include 6 State-Owned Commercial Banks, 3 specialized banks, 9 foreign banks, and 43 Private Commercial Banks, including 10 Islamic banks.

As of YE2024, HBL Bangladesh's total deposits stood at Tk.7.77 billion, up from Tk.7.20 billion in YE2023. The bank's loans and advances increased to Tk.5.53 billion in YE2024 from Tk.5.32 billion in YE2023. Consequently, HBL Bangladesh held a market share of 0.04% in deposits and 0.03% in loans and advances as of December 31, 2024. This is roughly the same market share as of December 31, 2023. HBL's deposit growth was 7.84%, slightly higher than the industry growth of 7.69%. However, the growth rate of the bank's loans and advances was 4.11%, compared to the industry growth rate of 10.66% in YE2024. This scenario indicates that HBL Bangladesh's position in the market in terms of deposits and loans is relatively insignificant.

The non-funded business performance of the bank reached Tk.4.37 billion in YE2024, compared to Tk.3.26 billion in FY2023. The import business increased to Tk.2.18 billion in YE2024, up from Tk.1.77 billion in YE2023. Similarly, the export business rose to Tk.1.14 billion in YE2024, an increase from Tk.0.97 billion in YE2023. In terms of total remittance, the bank reported Tk.2.62 billion in 2024, compared to Tk. 1.77 billion in 2023.

3.0 INDUSTRY ANALYSIS

3.1 Industry & Economy Projection

The banking sector in Bangladesh faced rising challenges in Q2 FY25, characterized by a surge in non-performing loans (NPLs), slowing credit growth, a capital adequacy shortfall, and liquidity pressures. The sector is going through a critical time as it struggles to manage both visible and hidden NPLs, ensure capital adequacy, and establish good governance across its banks. NPLs increased sharply to a record high of 20.2% in Q2 FY25, up from 16.93% in the previous quarter and 9.00% a year earlier. This significant rise has placed considerable strain on banks' balance sheets, limiting their ability to extend new credit and exacerbating systemic vulnerabilities. In response, the Bangladesh Bank (BB) has introduced a series of structural and policy reforms aimed at strengthening governance, improving financial discipline, and enhancing risk management.

Economic activity in Bangladesh remained moderate in FY24, with real GDP growth registering a downturn across all quarters: 5.87% in Q1, 4.47% in Q2, 4.62% in Q3, and 2.14% in Q4, leading to an annual GDP growth of 4.22%.

The first quarter of Q1 FY25 experienced significant economic disruptions across all three major sectors—agriculture, industry, and services—following students-people uprising in July and August 2024. Moreover, the new interim government faced challenges in its commitment to economic reforms as several rounds of floods impacted many districts in August and September 2024. Despite these challenges, a rebound in external demand was evident in robust export growth and substantial remittance inflows during Q1 FY25.

The economy of Bangladesh demonstrated resilience in Q2 FY25, buoyed by strong agricultural production, sustained industrial activity, and steady service sector growth. Real GDP grew by 4.48% year-on-year in Q2 FY25, showing a strong recovery from the lower growth of 1.96% in Q1 FY25. The second quarter exhibited notable progress in agricultural crops, including a plentiful market supply of vegetables and maize. The industrial sector also saw significant growth, as reflected in the Index of Industrial Production (IIP). Positive spillover effects from agriculture and industry are expected to bolster economic performance in the coming quarters.

For Chief Executive Officer
Tanzirul Islam
Vice President
Credit Rating Information and Services Limited

Despite these hurdles, Bangladesh's GDP grew by 5.78% in FY23, compared to 7.1% in FY22 and 6.94% in FY21. The International Monetary Fund (IMF) in its World Economic Outlook (April 2025) projected that the economy would grow by 3.8% in 2024-2025 but anticipates a stronger recovery, forecasting growth of 6.5% in FY26.

In contrast, the Asian Development Bank (ADB) noted in its Asian Development Outlook (April 2025) that GDP growth moderated in FY24 due to slower global growth and tighter domestic policies that weakened demand. Inflation remained elevated because of supply constraints and currency depreciation. It further stated that, amid ongoing supply disruptions and political transitions, growth is expected to slow further in FY25 but may recover in FY26 with improvements in domestic demand, as inflation is projected to rise into double digits before easing. Improving the investment climate and restoring macroeconomic stability are critical for sustaining higher growth.

The ADB report emphasized that slower growth in services, due to political unrest, financial sector vulnerabilities, and reduced household purchasing power, will dampen GDP growth in FY25. The GDP growth rate is projected to decline further to 3.9% in FY25.

Agricultural growth is also expected to moderate following repeated floods. Although disruptions in factories affected industrial growth in the first quarter of FY25, sector growth is expected to improve as moderately rising demand for exports boosts large manufacturing output. On the demand side, consumption and investment will grow moderately, supported by strong remittance inflows but partially offset by contractionary monetary and fiscal policies, as well as investor caution. Contractionary policies and delays in payments for energy and fertilizer imports will also temper import growth for the remainder of FY25. However, with export growth also moderating, the contribution of net exports to overall growth is expected to be negligible.

3.2 Sector at year-end 2024

The overall health of the banking sector is currently facing significant challenges. High levels of classified loans and stressed assets, combined with shortages in capital and provisions, have contributed to a decline in profitability. This situation has led to a loss of confidence among depositors and remains a major concern. Although the central bank has implemented several measures to address these issues, public trust has been further undermined by reports of loan scams in certain banks, resulting in increased pressure for deposit withdrawals. Additionally, the banking sector has experienced a slowdown in the growth of bank advances. On a more positive note, there are signs that public confidence is beginning to recover, as funds that were previously kept outside of banks are being converted into deposits, leading to a notable increase in excess liquidity within the sector.

3.3 Major Issues and Public Confidence

The banking sector in Bangladesh continues to be volatile and experiences a moderate level of turbulence, facing several challenges, including weak governance, poor asset quality, declining profitability, a reduced interest rate spread, capital adequacy shortfalls, stressed liquidity, and inadequate risk management, particularly in scheduled commercial banks (SCBs) and specialized banks. Together, these issues have undermined public confidence, resulting in a prolonged liquidity crunch following scandals in some scheduled commercial banks and non-bank financial institutions.

3.4 Asset Quality

Non-performing loans (NPLs) remain a critical concern in the banking industry, representing a significant challenge in credit management. Over the past year, the industry's NPLs have skyrocketed due to poor asset management, necessitating immediate action to stabilize the banking sector, restore public confidence, and prevent a bank run. In the second quarter of fiscal year 2025 (Q2FY25), the sector's NPLs continued to rise, increasing by 21.33 percent to BDT 3,457.64 billion, compared to BDT 2,849.77 billion in the first quarter (Q1FY25). The NPL ratio relative to total outstanding loans reached a record high of 20.2 percent during Q2FY25, up from 16.93 percent in the previous quarter and from 9.00 percent a year earlier. The cumulative volume of NPLs saw a substantial increase of approximately BDT 2000 billion compared to the prior year. A preliminary analysis indicates that the deteriorating NPL

For Chief Executive Officer
Tanzirul Islam
Vice President
Credit Rating Information and Services Limited

situation was primarily driven by the non-renewal of existing loans and the non-repayment of rescheduled loans. This trend was further aggravated by a revised overdue-status counting system implemented on September 30, 2024, which reduced the overdue threshold for fixed-term loans from six months to three months, leading to an increase in classified loans. Additionally, the net NPL ratio to total loans in the banking sector nearly doubled, reaching 10.57 percent by the end of Q2FY25, compared to 5.89 percent at the end of Q1FY25.

Across different categories of banks, state-owned commercial banks (SCBs) maintained the highest NPL ratio, which rose to 42.83 percent at the end of Q2FY25 from 40.35 percent at the end of Q1FY25. Private commercial banks (PCBs) also saw an increase, with their NPL ratio climbing to 15.60 percent—significantly above the acceptable threshold—up from 11.88 percent in Q1FY25. Foreign commercial banks (FCBs) and specialized banks (SBs) experienced minor fluctuations in their NPL ratios; FCBs decreased to 4.13 percent from 4.99 percent, while the NPL ratio for SBs increased to 14.37 percent from 13.21 percent in the previous quarter. The total classified loans in the banking sector amounted to Tk.3,457.65 billion, with a provision shortfall of Tk.1061.31 billion in Q2, FY2025.

3.5 Capital Adequacy

The overall performance of the banking sector regarding capital adequacy was unsatisfactory and deteriorated significantly in FY25. Both state-owned commercial banks (SCBs) and specialized banks face considerable capital shortfalls.

In Q2 FY25, the overall Capital to Risk-Weighted Assets Ratio (CRAR) of the banking system fell well below the Basel III minimum requirement. This decline was primarily due to the performance of state-owned commercial banks. By the end of Q2 FY25, the overall CRAR for the banking system dropped to 3.08 percent, down from 6.86 percent at the end of Q1 FY25. The CRAR for SCBs saw a sharp decline to -8.42 percent in Q2 FY25, compared to -2.48 percent at the end of Q1 FY25. In contrast, the CRAR for private commercial banks (PCBs) increased slightly to 10.98 percent by the end of Q2 FY25, up from 9.38 percent in the previous quarter. The CRAR for specialized banks (SBs) stood at -41.02 percent in Q2 FY25, while it was 42.09 percent for foreign commercial banks (FCBs) at the end of the same period.

3.6 Profitability

The profitability of the banking industry declined at the end of Q1 FY25 compared to the end of Q1 FY24, as indicated by decreases in both return on assets (ROA) and return on equity (ROE). Specifically, the overall ROA dropped to 0.38 percent and the ROE fell to 7.42 percent at the end of Q1 FY25, down from 0.41 percent and 7.46 percent, respectively, at the end of Q1 FY24. A quarterly comparison also shows reductions in these metrics from 0.40 percent and 7.85 percent at the end of Q4 FY24. In contrast to the moderate slowdown in overall sector profitability, the ROA and ROE for Scheduled Commercial Banks (SCBs) experienced a sharp decline, falling to -0.25 percent and -7.21 percent at the end of Q1 FY25 from -0.07 percent and -1.99 percent at the end of Q1 FY24. However, quarter-on-quarter (Q-o-Q), they showed improvement, with the ROE and ROA rising from -0.37 percent and -11.40 percent at the end of Q4 FY24. The profitability of Private Commercial Banks (PCBs) also declined, with ROA and ROE dropping to 0.39 percent and 7.22 percent at the end of Q1 FY25, down from 0.49 percent and 8.10 percent at the end of Q1 FY24. Looking further back, the industry's profitability experienced a slight decline at the end of Q4 FY24 compared to Q4 FY23, with ROA and ROE decreasing to 0.40 percent and 7.85 percent at the end of Q4 FY24 from 0.43 percent and 7.88 percent at the end of Q4 FY23. CRISL, however, predicts that the industry's profitability will deteriorate further in Q2 FY25, as many banks will need to maintain significant provisions against rising non-performing loans (NPLs), which will likely negatively impact both ROA and ROE by the end of Q2 FY25.

3.7 Liquidity

The banking sector faced tight liquidity conditions during the calendar year 2024, largely due to a contractionary monetary policy, significant deposit withdrawals from some scheduled banks following reports of substantial loan scams, a moderate recovery in the face of increasing non-performing loans (NPLs), limited deposit mobilization, substantial government borrowing, and ongoing interventions by the Bangladesh Bank in the foreign exchange market.

For Chief Executive Officer
Tanzirul Islam
Vice President
Credit Rating Information and Services Limited

CREDIT RATING REPORT
On
HABIB BANK LIMITED - Bangladesh Operations

In the second quarter of fiscal year 2025 (FY25), the banking sector's excess liquidity rebounded modestly after a decline in the previous quarter, reaching BDT 2,150.02 billion, up from BDT BDT 1,780.91 in the earlier quarter. This increase was driven by a rise in year-on-year deposit growth and a slowdown in advance growth during the same period. The improved excess liquidity was also reflected in the statutory liquidity ratio (SLR) surplus, which climbed to 11.1 percent of total demand and time liabilities (TDTL) by the end of the quarter, compared to 9.2 percent at the end of Q12025, while TDTL remained nearly unchanged.

By the end of Q2 FY25, deposit growth in the banking sector had improved, recovering from a sharp decline in the previous quarter. Year-on-year deposit growth surged by 7.47 percent, while quarter-on-quarter (Q-o-Q) growth increased by 3.12 percent. This Q-o-Q growth suggests that the stabilization of some struggling banks helped restore confidence in the banking sector, leading to transfers of funds from outside the banking system into deposits. State-owned commercial banks significantly contributed to the overall deposit growth, which increased to 3.69 percent from 0.09 percent in Q1 FY25. In contrast, the sector's advance growth continued to decline, marking a rate of 8.02 percent, down from 9.16 percent in the previous quarter. The rising ratio of non-performing loans to total loans, along with regulatory restrictions on new loan disbursements for struggling banks, limited lending capacity and contributed to this subdued advance growth. Additionally, a cautious business environment, economic uncertainties, and higher borrowing costs likely dissuaded businesses from seeking new loans. Consequently, the sector's overall advance-deposit ratio (ADR) slightly increased to 81.55 percent at the end of December 2024, up from 81.32 percent at the end of the previous quarter.

4.0 CORPORATE GOVERNANCE

4.1 Management Committee (MANCOM)

Experienced management team

HBL Bangladesh operates as a branch of HBL Pakistan and therefore does not have a Board of Directors in Bangladesh. The highest authority in the country is the Management Committee (MANCOM), which is led by the Regional General Manager of the bank. MANCOM consists of the Regional General Manager and various Department Heads. Its responsibilities include establishing local policies and monitoring and controlling the bank's risks. Additionally, MANCOM is tasked with designing the internal control structure and overseeing the adequacy and effectiveness of the internal control and compliance systems. In 2024, MANCOM held 12 meetings, which was the same number as in 2023. These meetings addressed various issues, including inspection reports from the Head Office and the Bangladesh Bank, branch performance analysis, and strategic business planning and review. As a branch of a foreign bank, HBL Bangladesh does not have an Executive Committee or Audit Committee. Instead, the internal control activities are managed by the Risk Compliance and Control Unit (RCCU) and the Internal Audit team.

4.2 Delegation of Power

During the surveillance period in YE2024, the management of Habib Bank has maintained the same level of authority. The Regional General Manager and the Country Risk Manager jointly have the delegated authority to approve credit limits up to USD 2.00 million. Moreover, the Regional General Manager has the sole authority to approve amounts up to USD 3.00 million against against 100% cash back financing. Any credit limits that exceed this local delegation must be forwarded to the Head Office in Pakistan for approval.

4.3 Human Resources Management

HBL Bangladesh adheres to standard procedures for recruitment, promotion, and training. The bank utilizes structured service manuals and compensation packages for its workforce at all levels. It also offers various long-term benefits, such as a Provident Fund, Gratuity, and Long-Term Service Awards for eligible staff. As of YE2024, the bank had a total of 81 staff members, an increase from 76 staff members in YE2023. HBL Bangladesh organizes multiple training programs for employees through different learning initiatives. Training Needs Assessment (TNA) is an ongoing process at the bank and is a mandatory requirement for all

For Chief Executive Officer
Tanzirul Islam
Vice President
Credit Rating Information and Services Limited

staff during the annual performance review. During the online performance review session, employees submit their training requirements, which functional heads will then address in one-on-one meetings to finalize the specific training needs for each employee. These functions also take into account the functional, organizational, and regulatory training requirements before submitting the staff-specific training needs to HR. HR compiles the annual training plan for each employee, secures approvals, and submits the plan to the Learning and Development function at the Head Office for timely implementation. Moreover, HR monitors the implementation of the training plan and provides periodic updates and dashboards to functional heads to support and oversee the progress of TNA.

4.4 IT Infrastructure and Its Use in MIS

The bank has a dedicated IT Department located locally, separate from the central IT at the Head Office in Karachi, to manage the local IT infrastructure. To ensure the smooth operation of banking business in Bangladesh, HBL Bangladesh takes care of Local IT Management, Local Software Management, Vendor Management, IT Governance, Compliance with IT Policy, and User Support and Services Management. Meanwhile, Core Systems, such as Core Banking and related Core Systems, are centralized at the Head Office in Karachi, Pakistan.

Good IT Infrastructure

The IT Department at HBL Bangladesh maintains performance level agreements and service level agreements with business lines to ensure quality service. These agreements outline all IT services, including target service uptime and response times for troubleshooting or any IT-related requests. Network management is a crucial part of HBL Bangladesh IT, ensuring smooth and secure data transmission among branches and the Head Office in Karachi. To track service issues, HBL Bangladesh IT employs an Incident Management System to log incidents. Additionally, the central incident management team at the Head Office publishes monthly reports for monitoring and governance. The local IT Department ensures that appropriate controls and security standards are established and comply with group IT and regulatory requirements. They also conduct Risk Assessments, Vulnerability Assessments, and Penetration Testing on various IT systems to identify and mitigate operational risks.

HBL Bangladesh offers Online Internet Banking services with 2FA (Two-Factor Authentication) for fund transfers between HBL to HBL. In terms of Real Time Gross Settlement (RTGS) and the National Payment Switch Bangladesh (NPSB), HBL Bangladesh IT has developed a robust communication structure with the central bank. Furthermore, the HBL Bangladesh payment system is PCI DSS (Payment Card Industry Data Security Standard) compliant. The IT Department ensures that infrastructure components such as virtual servers, network switches and routers, Windows PCs/Laptops, and ATMs are regularly upgraded to maintain standards, security, and smooth customer service. HBL Bangladesh also has a Disaster Recovery (DR) site at the HBL Motijheel Branch, enabling the bank to assist valued clients during a disaster. Each HBL branch has defined Business Continuity Plan (BCP) sites to continue operations during any disaster situation. By implementing a virtualization system at both the Primary and DR sites, business data and applications perform real-time synchronization, allowing users to access data at the DR site during any disaster at the Primary Site. Additionally, Virtual Local Area Networks (VLANs) have been implemented for the DR site, and bandwidth has been increased for all communication links within HBL Bangladesh to facilitate smooth operations, especially during disaster recovery situations.

Bangladesh Bank has spearheaded significant technological reforms in the financial sector. A notable change was the rollout of Nikash, which replaced the legacy EFT module in the Bangladesh Automated Clearing House (BACH). To support this transition, HBL Bangladesh upgraded its middleware for file processing, validation, and encryption, and deployed a new Hardware Security Module (HSM). Enhancements for IBAS++ file integration followed in December 2024.

Simultaneously, the central bank upgraded its RTGS system, which required HBL Bangladesh to automate related processes and adopt a new messaging format, with deployment completed in December 2024. These upgrades improved the speed, efficiency, and security of electronic fund transfers and real-time settlements.

For Chief Executive Officer
Tanzirul Islam
Vice President
Credit Rating Information and Services Limited

CREDIT RATING REPORT
On
HABIB BANK LIMITED - Bangladesh Operations

Additionally, HBL Bangladesh is implementing real-time interbank fund transfers (IBFT) through its mobile app and ATMs via the National Payment Switch Bangladesh (NPSB). This system went live in December 2024 and is currently undergoing sanity testing with Bangladesh Bank.

The setup for the New Offshore Banking Unit (OBU) has been completed as of January 2025. Several other projects are in progress, including Bangla QR and the ability to receive remittances and incentives through IBFT. The IT infrastructure is also being revamped to replace old switches and routers, along with the upgrade of virtual machine (VM) servers. Bit Locker software will be installed on laptops to ensure data protection.

5.0 RISK MANAGEMENT

The bank adheres to a structured risk management procedure across all risk areas in accordance with Bangladesh Bank (BB) guidelines. The risk management policy of the bank outlines the relationship between its risk management philosophy, processes, and procedures. In response to BB directives, HBL Bangladesh has been pursuing its Risk Management Objectives through the Risk Management Department and the Integrated Risk Management Committee, which oversees core risk areas in banking operations. The Integrated Risk Management Committee consists of nine members, along with invited participants, and is chaired by Mr. Muhammad Selim Barkat, the Regional General Manager. The committee meets at least once a month.

As part of regulatory requirements, the bank submitted its Internal Capital Adequacy Assessment Process (ICAAP) document for the year 2024. According to the ICAAP, the total capital requirement is Tk.5,110.40 million, with Tk. 5,000.00 million designated for the minimum capital requirement under Pillar 1 and Tk.200.00 million allocated for the additional capital requirement under Pillar 2. Of the total additional capital requirement, Tk.200.00 million is for strategic risk. Since strategic risk falls under operational risk, the only addition to operational risk will be considered for the Pillar 2 capital charge. The capital charge for operational risk is Tk.89.60 million, which leads to a net capital charge of Tk.110.40 million under Pillar 2. It is evident from this information that the bank faces a capital deficit of Tk.237.70 million.

Habib Bank has been following the guidelines of the "Internal Credit Risk Rating System (ICRRS) for Banks" for credit risk assessment and decision-making. To support this initiative, a robust ICRRS implementation team has been developed and trained through sessions organized by the Bangladesh Institute of Bank Management (BIBM). The goal is to identify portfolio risks and minimize the bank's overall risk; therefore, no proposal has been approved without an accompanying ICRR.

5.1 Credit Risk Management

To secure loans and advances, HBL Bangladesh adheres to the guidelines set by the Bangladesh Bank and its Group Risk Management policies. The credit presentation package, or appraisal report, is prepared by Relationship Managers and then forwarded to the Risk Manager for further processing following approval from the Business Head. The bank conducts a thorough analysis of credit proposals, emphasizing the financial position, line of business, market position, relationship status with the bank, purpose of loans, sectoral exposure, SWOT analysis, and credit history of clients. Notably, no loans or advances are sanctioned against shares. The bank also conducts an industry analysis to its investment decisions. A core principle of the credit approval process is that at least three authorized personnel must approve all credit requests. One signatory must belong to the respective business function, and one must be from independent risk management with a Credit Approval Authority (CAA) equal to or greater than the total credit amount being approved. The third signatory can either hold a CAA or a Credit Initial Authority (CIA) from risk management or the business function. Loan cases exceeding the delegated credit approval authority for local CAA holders are forwarded to the Head Office for approval. Credit relationships are reviewed and re-approved annually. The Risk Management team also verifies that all loan assets are appropriately classified, rated, and that the necessary provisions are in place.

For Chief Executive Officer
Tanzirul Islam
Vice President
Credit Rating Information and Services Limited

Furthermore, loan documentation is periodically reviewed to identify any errors. If documentation errors are found, the bank takes corrective measures to rectify them and addresses the issue under residual risk during the Internal Capital Adequacy Assessment Process (ICAAP).

As of December 31, 2024, a review of the risk-weighted distribution of on-balance sheet exposure under credit risk revealed the following: 53.99% of exposures fall under the 0% risk category, 20.37% under the 20% risk category, 6.48% under the 50% risk category, 0.35% under the 75% risk category, 12.91% under the 100% risk category, 0.37% under the 125% risk category, 0.02% under the 150% risk category, and 5.51% under Credit Risk Mitigation (CRM). This data indicates that the majority of the bank's exposure is relatively low-risk. In terms of corporate exposure, 98.56% of the total corporate exposure is rated. However, 100% of the total Small and Medium Enterprises (SME) exposure remains unrated. It is essential to update these ratings through continuous surveillance by External Credit Assessment Institutions (ECAIs) to maintain their relevance.

5.2 Asset Liability Management (ALM)

HBL Bangladesh has established and approved written guidelines for Asset Liability Management (ALM) that align with the Bangladesh Bank's ALM guidelines. The Asset Liability Management Committee (ALCO) consists of eight members and is chaired by the Regional General Manager. In 2024, ALCO conducted 12 meetings in accordance with company policies and Central Bank regulations. The key agenda items included the targeted asset-to-deposit ratio, interest rates on deposits and loans, product line expansion, and bank pricing strategies. ALCO is responsible for managing balance sheet risks. The committee sets and reviews ALM strategies on a monthly basis. Its primary responsibilities include assessing the overall performance of money market activities, managing liquidity and interest rate risks, and analyzing economic and market dynamics such as competition and target markets. Additionally, the committee establishes dealers' authorized limits and the deposit pricing strategy.

5.3 Operational Risk Management

5.3.1 Internal Control and Compliance (ICC)

The Three Lines of Defense (3LoD) model is widely recognized as an effective framework for risk management globally. The Bank is dedicated to implementing a comprehensive entity-wide 'Three Lines of Defense' model, which ensures a clear segregation of responsibilities between daily operations, monitoring and oversight, as well as independent assurance to achieve effective governance. HBL BD's Compliance Program is built on a well-defined three lines of defense model, supported by efficient processes to mitigate compliance risks.

HBL BD leverages this three-lines-of-defense model to manage compliance risk while firmly adhering to its compliance risk appetite. This model represents the strategic implementation of compliance risk management framework. At each line of defense, there should be risk governance guidance to support the CRM framework.

The assurance functions in the second and third lines of defense are critical components of this model. The first line, which consists of business and operations, is responsible for the ongoing monitoring and evaluation of the effectiveness of its controls regarding compliance risk. The second line, represented by the Compliance function, adopts a risk-based approach to continuously assess the effectiveness of compliance controls through ongoing monitoring and planned testing. Finally, the third line, which is the Internal Audit function, systematically evaluates and improves the effectiveness of risk management, controls, and governance processes, including those related to compliance risk management.

The bank's business units, as well as support and back-office operations, act as the First Line of Defense. They are responsible for identifying, managing, and mitigating compliance risks as part of its everyday responsibilities.

For Chief Executive Officer
Tanzirul Islam
Vice President
Credit Rating Information and Services Limited

CREDIT RATING REPORT
On
HABIB BANK LIMITED - Bangladesh Operations

HBL BD Compliance & RCCU serves as the Second Line of Defense, providing advice, education, guidance, support, monitoring, and challenge to the First Line of Defense to ensure that compliance risks are identified and appropriately managed. Compliance also closely coordinates with other risk management functions within the bank to monitor the adequacy and effectiveness of compliance risk controls.

The Third Line of Defense is represented by the bank's Internal Audit function, which provides independent and objective assurance and consulting activities aimed at adding value and improving the bank's operations.

The Third Line of Defense employs a systematic and disciplined approach to assess and enhance the effectiveness of compliance risk management controls to achieve its objectives. It also independently reviews the effectiveness of both the First and Second Lines of Defense.

At a centralized level, a dedicated Central Compliance Committee (CCC) is established to enhance governance and oversight in critical areas, such as implementing regulatory directives, ensuring compliance with regulatory findings, tracking timely submission of regulatory reports, and coordinating regulatory inspections. The observations raised by the Bangladesh Bank inspection team, the Bangladesh Financial Intelligence Unit, and external audit teams are reviewed and continuously followed up on by local and international Compliance teams, with closure validated by Internal Audit for effective resolution. The compliance team ensures that all circulars and guidelines published by Bangladesh Bank and BFIU are properly disseminated to stakeholders and monitored for compliance.

5.3.2 Prevention of Money Laundering

Compliance and operational standards have always been at the core of Habib Bank Limited's (HBL) priorities, both in Bangladesh and globally. We understand the importance of continually identifying and assessing the potential risks of money laundering and terrorist financing. To address these challenges, we have implemented robust processes to mitigate and ultimately alleviate such risks.

As part of its commitment to enhancing supervision and risk mitigation in the Anti-Money Laundering/Counter Financing of Terrorism (AML/CFT) domain, HBL initiated a global effort through the Business Transformation (BT) program. This multi-year initiative focuses on four key pillars: Governance, People, Process, and Technology, all related to financial crime risk. HBL Bangladesh is an integral part of this program, which aims to cover, but is not limited to, the digitalization of the account opening process—including Know Your Customer (KYC)—the implementation of a new automated customer risk rating methodology, and enhancements to the transaction monitoring system, such as optimizing and adding new scenarios. Additionally, the bank is improving the sanction screening system and integrating it with its core banking system for real-time automated customer on boarding screening, along with automating Management Information Systems (MIS).

The BT program commenced in Bangladesh in Q4 2020, with the launch of an upgraded version of its transaction monitoring system in May 2021, followed by the go-live of the SWIFT message auto-screening system in July 2021. The bank has already automated the sanction name screening process for account opening, portfolio screening, and transaction monitoring. HBL Bangladesh has successfully implemented the electronic KYC (eKYC) system as mandated by the Bangladesh Financial Intelligence Unit (BFIU) under BFIU Circular 25, dated January 8, 2020. HBL BD has also integrated the new customer KYC risk scoring methodology into its KYC system in accordance with BFIU Circular 26, dated June 16, 2020, and has rolled out the Trade KYC system as outlined in BFIU Circular 24, dated December 10, 2019.

HBL recognizes its obligation to cooperate with regulators and law enforcement agencies to prevent, detect, and control financial crime, while also ensuring compliance with AML laws and regulations. This commitment is to safeguard financial channels from being exploited by money launderers and terrorist organizations for illicit activities. HBL Bangladesh has worked diligently to establish proper policies, processes, and controls to deter money laundering and other financial crimes that could impact the bank, its clients, and stakeholders.

For Chief Executive Officer
Tanzirul Islam
Vice President
Credit Rating Information and Services Limited

CREDIT RATING REPORT
On
HABIB BANK LIMITED - Bangladesh Operations

The bank has aligned and reviewed its AML/CFT-related policies and procedures to ensure they fully comply with local regulatory requirements, including measures against money laundering, as directed by the Bangladesh Financial Intelligence Unit (BFIU), and have developed the 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 employs several strategies to mitigate interest rate risks. The bank offers fixed-term deposits with a maximum maturity period of one year, allowing for monthly adjustments to the interest rate. This approach helps the bank stay well-positioned in the event of interest rate fluctuations. Moreover, for long-term financing, HBL Bangladesh allows for the re-pricing of loans issued to clients engaged in trade with the bank.

5.4.2 Equity and Commodity Financing Risk

Equity risk arises from investing in the stock market or purchasing equity in any listed company. The bank is not exposed to equity risk since it has no investments in the capital market.

5.4.3 Foreign Exchange Risk

Foreign Exchange Risk arises from changes in the market prices of foreign exchange (FX). The Treasury Department measures and monitors these risks. In accordance with Bangladesh Bank guidelines, HBL Bangladesh has developed and implemented a Treasury Investment Policy specifically for managing foreign exchange risk. The roles and responsibilities of the Treasury front office, back office, and mid-office have been clearly segregated as per the Central Bank's guidelines.

To manage FX risk effectively, the bank has established dealer limits, deal ticket size limits, swap funds limits, and counterparty limits. The foreign exchange risk for the bank is minimal, as all FX transactions are conducted on behalf of customers to fulfill L/C commitments and remittance needs. To prevent unexpected losses from FX transactions, HBL Bangladesh does not engage in speculative trading.

Bangladesh Bank has approved a Net Open Position (NOP) limit of USD 8.18 million, while the bank's internal NOP limit for FX operations in Bangladesh is set at USD 1.7 million. As of December 31, 2024, HBL Bangladesh reported a positive net open position of USD 0.32 million, compared to a negative position of USD 1.08 million in YE2023. The bank's policy prohibits off-premises dealings and trading after office hours.

HBL Bangladesh also maintains various Nostro accounts with different banks abroad to facilitate the settlement of export, import, and remittance transactions. All Nostro accounts are reconciled daily, and the bank submits a monthly report to both Bangladesh Bank and its Head Office for review and monitoring.

6.0 PERFORMANCE

6.1 Financial Performance

The overall financial performance of HBL was assessed as average with notable increases in net interest income and investment income. This improvement had a positive effect on profitability indicators. CRISL evaluates financial performance by looking at metrics such as Return on Average Assets (ROAA), Return on Average Equity (ROAE), Net Interest Margin (NIM) and more.

Average financial performance

The analysis shows that net interest income increased to Tk.576.27 million in 2024, up from Tk.377.99 million in the previous year. The growth rate for interest income was 52.46%, which lower than the growth of paid on deposits and borrowings at 56.36% This resulted in a net interest income of Tk.137.04 million in 2024, compared to Tk.97.09 million in 2023.

For Chief Executive Officer
Tanzirul Islam
Vice President
Credit Rating Information and Services Limited

CREDIT RATING REPORT
On
HABIB BANK LIMITED - Bangladesh Operations

Moreover, operating income rose from previous levels due to income derived from investments in government securities and capital gain and increase in net interest income despite of decrease in commissions, exchange and brokerage activities. Operating income improved to Tk.834.72 million, up from Tk.665.79 million in YE2023. The breakdown of operating income for 2024 stood at 16.42% (up from 14.56% in 2023) was from net interest income, 79.21% (up from 76.08% in 2023) came from investment income, 3.89% (down from 8.40% in 2023) was derived from commissions, exchange, and brokerage income, and the remaining 0.48% (down from 0.95% in YE2023) was obtained from other operating income.

On the other hand, operating expenses increased to Tk.451.69 million in 2024, compared to Tk.395.25 million in 2023. This rise was attributed to higher salaries and allowances and depreciation and repairs of bank's assets. The growth rate of operating income was 25.37%, which outpaced the growth rate of operating expenses at 14.28%. Consequently, operating profit before provision improved to Tk.383.04 million in 2024, up from Tk.270.54 million in 2023. Net profit before tax increased to Tk.349.74 million in 2024, compared to Tk.247.96 million in 2023. After all, net profit after tax improved to Tk.247.80 million in 2024, up from Tk.165.33 million in 2023.

As a result,, Return on Average Asset after tax (ROAA) and Return on Average Equity (ROAE) stood at 1.71% and 5.14% in 2024, up from 1.22% and 3.58% in 2023 respectively. Moreover, Net Interest Margin (NIM) increased to 2.04% in 2024 from 1.57% in 2023.

CRISL reviewed the accounts for the first quarter ending March 31, 2025. The bank reported an operating income of Tk.244.20 million, alongside operating expenses of Tk.110.06 million for the same period. The net profit was Tk.113.43 million, showing an upward compared to the first quarter of 2024, which had a net profit of Tk.49.44 million. As of March 31, 2025, total loans and advances slightly increased to Tk.5,758.61 million from Tk.5538.02 million as of December 31, 2024. In contrast, total deposit decreased to Tk.6,932.41 million as of March 31, 2025, compared to Tk. 7765.75 million as of December 31, 2024.

6.2 Operating Efficiency

Moderate operating efficiency

The overall operating efficiency remains moderate but shows an improving trend. This efficiency is assessed based on operating income, operating expenses, and cost-to-income ratio. In 2024, operating income rose to Tk.834.72 million, an increase from Tk.665.79 million in 2023, indicating a growth of 25.37%. Operating expenses also increased, reaching Tk.451.69 million in 2024 compared to Tk.395.25 million of the prior year. The efficiency ratio has improved, standing at 54.11% in 2024, down from 59.37% in 2023. As a result, the bank is required to account for a capital charge of Tk.50.00 million as per Internal Capital Adequacy Assessment Process (ICAAP).

7.0 ASSET MANAGEMENT

The total assets of the bank increased by Tk. 1,098.56 million, reaching Tk.14,999.38 million in 2024, compared to Tk. 13,900.82 million in 2023, indicating a growth of 7.90%. As of December 31, 2024, these assets have been financed as follows: 51.77% by deposits and other accounts, 32.91% from the capital fund of the parent company and other reserves, and 15.32% from other sources. Additionally, an analysis of fund applications shows that investments in government securities and loans and advances are on the rise. This increase is primarily attributed to the implementation of the bank's strategic plan.

7.1 Non- Performing Loan

Moderate asset quality

The asset quality of HBL has been assessed as moderate, with an improving trend due to a decrease in the non-performing loan (NPL) ratio over the past few years. Total loans and advances for the bank increased to Tk.5,538.02 million in 2024, up from Tk.5,319.18 million in 2023. The non-performing loans amounted to Tk.351.39 million as of December 31, 2024, compared to Tk. 352.81 million in 2023. All of the non-performing loans fell into the bad/loss category (100%). As a result, HBL's gross NPL ratio decreased to 6.35% in 2024, down from 6.63% in 2023. Furthermore, the gross NPL ratio also decreased to 6.10% as of March 31, 2025.

For Chief Executive Officer
Tanzirul Islam
Vice President
Credit Rating Information and Services Limited

CREDIT RATING REPORT
On
HABIB BANK LIMITED - Bangladesh Operations

According to the guidelines of the Internal Capital Adequacy Assessment Process (ICAAP), the bank was required to set aside Tk.50.00 million due to the high NPL ratio. After accounting for specific provisions and interest suspense related to classified loans, the net NPL dropped to 0.02% in 2024 from 0.59% in 2023.

NPL ratio 6.63%

The gross NPL coverage ratio increased to 104.03% in 2024, up from 93.16% in 2023. The top 20 default clients accounted for 100% of the total classified loans, all of which are categorized as bad/loss. Recovery from classified loans stood at only 0.47%, prompting the need for an additional capital allocation of Tk.50.00 million as per ICAAP guidelines for 2024. It is noted that most of the non-performing loans were classified over ten years ago, and the associated businesses have since closed. The bank aims to reach settlement agreements with a focus on liquidating collateral through the judicial process.

In addition to legal actions, the recovery team is conducting in-person visits, phone conversations, and actively persuading clients for out-of-court settlements. Meanwhile, the bank's management is regularly reviewing these strategies. However, the overall recovery from classified and written-off loans remains unsatisfactory.

7.2 Sectoral Concentration

The bank's portfolio is moderately diversified, mainly due to a concentration in corporate exposure with a limited client base. As of December 31, 2024, the total Loans and Advances portfolio consists of 11.10% in term loan facilities (Tk.614.74 million), 67.04% in short-term loans (Tk.3,712.81 million), 16.82% in overdrafts (Tk.931.76 million), 3.08% in trust receipts (Tk.170.34 million), 0.94% in staff loans (Tk.52.15 million), 0.74% in cash credit (Tk. 40.81 million), 0.19% in payments against documents (Tk.10.75 million), and 0.09% in loans under the LIM category (Tk.4.67 million).

The bank has 67.89% of its portfolio in industrial advances and 31.17% in customer groups, with the remaining 0.94% in staff loans, indicating a high concentration of loans in corporate exposure.

Significant non-performing loan in trade & commerce

A review of sectoral non-performing loans (NPLs) in 2024 indicated that 63.21% of classified loans and advances were from trade finance, while loans related to other general loans made up 33.72% and 3.06% in ready-made garment (RMG). As part of its strategic plan, the bank is now open to longer-term loan exposures to minimize portfolio volatility and increase its overall loan book by leveraging its network. Clients are being on boarded with strong security measures, including standby letters of credit, parental support/corporate guarantees, and various other security documents.

In 2024, the outstanding exposure to the top 20 borrowers accounted for 93.80% of total loans and advances. Two clients are categorized as bad and loss, amounting to Tk.301.20 million as of December 31, 2024. However, the bank plans to reduce this concentration in the top 20 borrowers. Within the industrial sector, the highest loan disbursement was to other sectors (48.82%), followed by the food and allied industries (13.50%), chemicals and pharmaceuticals (13.01%), general traders (4.01%), metals and allied industries (9.23%), and the automobile, textile, and transportation equipment industries (11.42%) as of December 31, 2024.

As of December 2024, the outstanding loan amounts were heavily concentrated in the Dhaka Division (79.33%), followed by the Chattogram Division (19.23%), with the remainder in the Sylhet Division (1.44%). The bank holds significant investments in the Dhaka and Chattogram divisions due to the localization of business and branch concentration.

7.3 Large and Rescheduled Loan

As of December 31, 2024, the Bank reported that 37.75% of its loan portfolio consists of large loans, an increase from 21.37% in the prior year. The total outstanding amount for large loans, which are defined as those exceeding 10% of total capital, stood at Tk.3,666.20 million. This includes Tk.1,678.40 million in funded loans and Tk.1,987.80 million in non-funded loans, covering seven clients. Throughout 2024, there were no rescheduled loans.

For Chief Executive Officer
Tanzirul Islam
Vice President
Credit Rating Information and Services Limited

CREDIT RATING REPORT
On
HABIB BANK LIMITED - Bangladesh Operations

7.4 Off Balance Sheet Exposure

As of December 31, 2024, the total off-balance sheet exposure of HBL Bangladesh was Tk.4,184.34 million, an increase from Tk.4,069.81 million on December 31, 2023. The composition of off-balance sheet items was as follows: 54.59% were letters of guarantee, 24.46% were other contingent liabilities, 5.99% were acceptances and endorsements, 12.58% were irrevocable letters of credit, 1.91% were bills for collection, and 0.47% were related to documentary credit and short-term trade transactions.

Notably, acceptances and endorsements rose to Tk.250.52 million from Tk.67.80 million, contributing positively to the overall off-balance sheet exposure. In terms of risk classification for the credit equivalent of off-balance sheet exposure, the total risk-weighted assets (RWA) increased to Tk.1,215.16 million as of December 31, 2024, compared to Tk. 1,092.72 million on December 31, 2023.

Analyzing the distribution of off-balance sheet exposure under credit risk as of December 31, 2024, it was found that 1.11% fell under the 20% risk category, 69.56% under the 50% risk category, none under the 100% risk category, and 29.33% under the 125% risk category. It is important to note that a significant portion of the risk exposure is classified under low-risk categories. Among corporate exposures, totaling Tk.3,813.09 million, only 1.44% were unrated.

8.0 CAPITAL ADEQUACY

HBL Bangladesh has been maintaining a good capital adequacy ratio. Under the risk-based capital adequacy framework of Basel III, the total Risk-Weighted Assets (RWA) of the bank increased to Tk.5,225.80 million as of December 31, 2024. Of this amount, 81.90% emanated from credit risk, 17.15% from operational risk, and the remaining 0.95% from market risk. This compares to Tk.4,167.92 million as of December 31, 2023, where 77.76% was from credit risk, 19.17% from operational risk, and 3.07% from market risk.

Good capital adequacy

Against the above, the regulatory capital stood at Tk.4,872.71 million. The Capital to Risk-Weighted Assets Ratio (CRAR) of the bank declined to 93.24% as of December 31, 2024, down from 112.44% in 2023, primarily due to the rise in risk-weighted assets. The CRAR based on core capital (Tier 1) was 91.68%. Additionally, the CRAR decreased further to 88.10% as of March 31, 2025.

The higher CRAR reflects the bank's conservative approach, significant asset deployment under the low-risk category, and strong capital support from its parent company. It is noteworthy that the Bangladesh Bank increased the Minimum Capital Requirement from Tk.4,000 million to Tk.5,000 million, effective June 2023. In response, HBL Bangladesh received deferral approval from the Bangladesh Bank to raise its paid-up capital to Tk.5,000 million, with a deadline of December 31, 2025.

Furthermore, the internal capital generation ratio increased to 5.35% in YE2024, up from 3.62% in YE2023. The leverage ratio of the bank stood at 29.10 times (required equal to or greater than 3.50%) as of December 31, 2024, a slight decrease from 29.81 times as of December 31, 2023.

For Chief Executive Officer
Tanzirul Islam
Vice President
Credit Rating Information and Services Limited

CREDIT RATING REPORT
On
HABIB BANK LIMITED - Bangladesh Operations

Stress Testing Analysis
The following table shows the sensitivity of risk factors on CRAR 93.24%.

Indicators	**Magnitude of Sensitivity** (Minor to Major Shock Level)
Negative Shift in NPL's Categories	-0.01 ~ -0.42
Decrease in the FSV of the collateral	-0.01 ~ -0.04
Increase in NPLs	-0.30 ~ -0.98
Interest Rate	-3.41 ~ -10.23
FEX: Currency Depreciation/ Appreciation	0.00 ~ -0.01
Equity Shock	0.00 ~ 0.00
Total Change	**-3.73 ~ -11.68**
CRAR After Shock (%)	**89.64~81.70**

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 is good in consideration of complied the regulatory liquidity indicators and more investment in government security but constrain in asset and liability mismatch. The bank's net stable funding ratio and liquidity coverage ratios exceeded the required thresholds, and it maintained a higher Cash Reserve Ratio (CRR) and Statutory Liquidity Requirement (SLR). HBL Bangladesh has consistently adhered to Cash Reserve Ratio (CRR) and Statutory Liquidity Requirement (SLR) as stipulated by the Bangladesh Bank. As of December 31, 2024, the CRR and SLR requirements were TK.308.78 million and TK.1,003.54 million against which the bank kept TK.710.26 million and TK.7,317.26 million respectively. This resulted in surpluses of Tk.401.48 million for CRR and Tk.6,313.72 million for SLR as of same date.

The liquid asset ratio of HBL improved to 106.26% in 2024, up from 97.58% in the previous year. Meanwhile, the advance-to-deposit ratio decreased to 68.31% in 2024, down from 72.90% in 2023. This decline was due to a lack of significant loan disbursement to new clients, as the focus shifted to maintaining loan enhancements for existing clients. Additionally, the loan-to-deposit and equity ratio fell to 43.60% in YE2024, compared to 44.67% in YE2023. Given the current macroeconomic conditions, investment in loans and advances is expected to slow in the upcoming year, leading the bank to potentially invest its liquid funds in government securities.

As of December 31, 2024, the Maximum Cumulative Outflow (MCO) was 13.55%, which is equal to or less than the benchmark of 16.50%. The Liquidity Coverage Ratio (LCR) stood at 167.30%, exceeding the required minimum of 100%. Additionally, the Net Stable Funding Ratio (NSFR) was 116.74%, which is above the 100% limit, representing a decrease from 119.80% in the previous year.

The maturity analysis of assets and liabilities revealed that a favorable gap in the maturity buckets from 0 to 1 month, totaling Tk.566.42 million, while there was a negative gap in the 1 to 3 month range, amounting to Tk.161.31 million due to a significant volume of time deposits maturing within this period. Consequently, it is anticipated that the bank will be able to meet its obligations with a sufficient cumulative surplus. The operating cash flow increased to Tk.737.01 million in YE2024, up from Tk.579.32 million in YE2023.

9.2 Fund Management

The analysis of fund management for the bank indicates that, as of December 31, 2024, total funds were comprised of deposits and other accounts (51.77%), equity funds (32.91%), borrowings from other banks, financial institutions, and agents (3.47%), and other liabilities (11.85%). The total deposits included 52.98% term deposits, 40.62% current deposits, 5.67% savings deposits, and 0.73% in bills payable as of the same date. It is important to

For Chief Executive Officer
Tanzirul Islam
Vice President
Credit Rating Information and Services Limited

note that high-cost deposits accounted for 52.98% of the total deposits, while low-cost CASA deposits represented 46.29%. Additionally, the top 50 depositors held 84.44% of the total deposits as of December 31, 2024, highlighting a significant concern for the bank due to its reliance on a small number of clients. Habib Bank primarily depends on customer deposits, which are sensitive to interest rate changes. As previously mentioned, HBL has the opportunity to improve the low-cost aspect of its funding mix through effective cash management strategies. Furthermore, the overall cost of funds increased to 5.57% in 2024, compared to 3.96% in 2023.

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 • Significant credit concentration in corporate exposure and top-50 depositors • Moderate operating efficiency and recovery • Dominance in high cost of funding mix • Small scale of operation
Business Opportunities:	**Business Challenges:**
• Product diversification • Portfolio diversification in low risk category business segment including SME • Islamic banking windows could be the new investment venture • Client rating to consolidate and enhance capital base of the bank • Establishment of Asset Management Company for managing the non-performing loan	• Ensuring Good Governance • Increasing trend in Classified loan in the industry • Low recovery performance • Lower private sector credit growth Monetary and fiscal policy coordination, consistency and implementation

11.0 PROSPECTS

The economy of Bangladesh showed resilience in the second quarter of FY25, bolstered by stable agricultural production, strong industrial activity, and steady growth in the service sector. Economic activity rebounded, with GDP growth increasing to 4.48 percent in Q2FY25, compared to a lower growth rate of 1.81 percent in Q1FY25. Notable developments in agricultural crops were observed during the second quarter, including a plentiful supply of vegetables and maize. The industrial sector also experienced significant growth, as reflected in the Index of Industrial Production (IIP). Positive spillover effects from both the agriculture and industry sectors are expected to enhance economic performance in the upcoming quarters.

However, inflation remained a major concern throughout Q2FY25, primarily driven by rising food prices that continued to exert upward pressure on overall price levels. Headline inflation (point-to-point) gradually increased from 9.92 percent in September 2024 to 11.38 percent in November 2024, easing slightly to 10.89 percent in December 2024. This inflation rise was largely attributed to the disrupted production of Aman rice due to floods between August and October 2024, in addition to higher production costs and supply chain disruptions that disproportionately affected low- and middle-income households. Similarly, the 12-month average headline inflation rose to 10.34 percent in December 2024, up from 9.97 percent in September 2024. Conversely, point-to-point core inflation, which excludes volatile items such as food and fuel, declined to 10.29 percent at the end of Q2FY25, down from 10.40 percent at the end of Q1FY25.

In response to increasing inflationary pressures, Bangladesh Bank (BB) continued to tighten its monetary policy. In Q2FY25, BB raised the policy rate by 50 basis points, from 9.50 percent to 10.0 percent on October 27, 2024, in an effort to mitigate elevated inflation. The

For Chief Executive Officer
Tanzirul Islam
Vice President
Credit Rating Information and Services Limited

financial market underwent adjustments, with interbank rates, average yields on government securities across all maturities, and retail lending and deposit rates rising in line with BB's policy objectives. Liquidity in the banking system improved in Q2FY25 compared to the previous quarter, indicated by an increase in excess liquidity. Slower growth rates in broad money and reserve money during Q2FY25 reflect BB's tightened monetary stance aimed at achieving macroeconomic stability and financial sector resilience. On the other hand, the banking sector experienced a significant rebound in deposit growth at the end of Q2FY25 compared to the previous quarter. This suggests that the stabilization of some struggling banks has restored confidence in the banking sector, leading to a shift of funds from outside the banking system into deposits.

Bangladesh's external sector showed resilience in the second quarter of FY25, largely due to a marked improvement in the country's balance of payments (BoP). A continuous increase in workers' remittance inflows, along with encouraging export receipts, contributed to this stability. Both the current account balance and the financial account balance improved significantly, shifting from a deficit in Q1FY25 to a surplus in Q2FY25. Exports (f.o.b) grew strongly, reaching USD 11.8 billion in Q2FY25, which represents a year-over-year increase of 16.9 percent. Total remittance inflows surged to USD 7.2 billion in Q2FY25, reflecting a year-over-year growth of 22.8 percent. Overall, the BoP recorded a surplus of USD 1.0 billion in Q2FY25, marking a noteworthy turnaround from a USD 1.5 billion deficit in Q1FY25. Additionally, the Bangladeshi Taka (BDT) depreciated by 8.33 percent against the US dollar from December 2024 compared to the same period in 2023.

Looking ahead, although inflation remains a significant concern, the Bangladesh Bank (BB) plans to maintain a tight monetary policy, combined with strong domestic agricultural production, to help ease inflationary pressures. The BB will continue to adopt a strict monetary stance until inflation decreases to a more manageable level. The economy is expected to gradually recover from previous political and economic uncertainties, supported by positive spillover effects from the agriculture and industry sectors. The interim government's efforts to implement extensive reform measures, including both institutional and economic reforms, are anticipated to achieve sustained macroeconomic stability and enhance governance in the financial sector. Robust growth in exports and substantial remittance inflows are expected to persist, further improving the balance of payments.

END OF THE REPORT

For Chief Executive Officer
Tanzirul Islam
Vice President
Credit Rating Information and Services Limited

CREDIT RATING REPORT
On
HABIB BANK LIMITED - Bangladesh Operations

12.0 CORPORATE INFORMATION

Date of Incorporation of Habib Bank Limited: August 25, 1941

HBL Bangladesh Operations conducting banking business in Bangladesh since 1976 after obtaining necessary permissions from Bangladesh Bank vide licence no. BL/DA/690/76 dated 3 June 1976.

CURRENT MANAGEMENT IN BANGLADESH:

Name	Designation
Mr. Muhammad Selim Barkat	Regional General Manager- Bangladesh, Sri Lanka & Maldives
Mr. M. Latif Hasan	Head-Corporate Banking
Ms. Parul Das	Chief Financial Officer
Mr. Kazi Mahbub Hasan	Regional Head Compliance – Bangladesh, Sri Lanka and Maldives
Mr. Nabadip Roy	Head - Treasury
Mr. Sakhawat Hossain Khan	Head – Country Operations
Mr. Md. Ashraful Haque	Head- Human resources

Statutory Auditor: Hoda Vasi Chowdhury & Co
Chartered Accountants

13.0 FINANCIAL INFORMATION

A. Balance Sheets as on December 31

(Figures in million tk.)

Particulars'	2024	2023	2022
Cash in Hand	73.08	74.05	82.87
Cash with BB and Other Banks/FIs	968.35	771.72	489.80
Cash with Other Banks/FIs	68.13	118.50	22.36
Money at Call and Short Notice	300.00	329.50	103.29
Investment in Securities (Govt.)	6,842.70	5,733.62	5,890.81
Total Investment	**6,842.70**	**5,733.62**	**5,890.81**
Total Loans, Adv. and Bills	**5,538.02**	**5,319.18**	**5,191.92**
Fixed Assets	162.24	169.92	171.52
Other Asset	1,046.87	1,384.34	1,333.30
Total Assets	**14,999.38**	**13,900.82**	**13,285.87**
Inter-Bank Borrowing	520.00	---	90.00
Current A/Cs and Others A/Cs	3,154.68	2,869.68	2,196.88
Bills Payable	56.58	52.14	61.85
Savings Bank Deposits	440.05	441.56	518.61
Term Deposits	4,114.44	3,837.95	3,786.86
Deposits and Other A/C	**7,765.75**	**7,201.31**	**6,564.20**
Other Liabilities	1,777.28	1,991.89	2,109.97
Total Outside Liabilities	**10,063.03**	**9,193.21**	**8,764.17**
Capital Fund	4,619.83	4,360.88	4,360.88
Revaluation Reserve	58.82	75.41	53.17
Retained Earning	257.69	271.32	107.64
Shareholders' Equity	**4,936.35**	**4,707.62**	**4,521.70**
Total Liabilities and Stockholders' Equity	**14,999.38**	**13,900.82**	**13,285.87**

For Chief Executive Officer
Tanzirul Islam
Vice President
Credit Rating Information and Services Limited

CREDIT RATING REPORT
On
HABIB BANK LIMITED - Bangladesh Operations

B. Income Statements for the year ended on December 31

(Figures in million tk.)

Particulars	2024	2023	2022
Interest Income	576.27	377.99	279.53
Interest Paid on Deposit and Borrowings	439.23	280.90	215.12
Net Interest Income	**137.04**	**97.09**	**64.41**
Investment Income	661.19	507.22	421.85
Fee, Commissions, Exchange and Brokerage	32.49	56.02	63.14
Other Non-Int. Income	4.00	5.46	5.65
Total Non-Int. Income	**697.68**	**568.88**	**490.64**
Total Operating Income	**834.72**	**665.79**	**555.05**
Salary, Allowance and other benefit	271.81	221.56	203.73
Other Operating Expenses	179.87	173.69	145.81
Total Operating Expenditure	**451.69**	**395.25**	**349.54**
Profit/Loss before Provisions	**383.04**	**270.54**	**205.51**
Provision for Unclassified Loans	10.13	1.86	2.71
Provision for Classified Loans	26.75	24.30	(1.69)
Provision for others	(3.58)	(3.58)	4.47
Total Provisions	**33.30**	**22.58**	**5.49**
Net P/L Before Taxes	**33.30**	**247.96**	**200.02**
Provision for Tax	101.94	82.63	97.45
Net P/L After Taxes	**247.80**	**165.33**	**102.57**

For Chief Executive Officer
Tanzirul Islam
Vice President
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
Tanzirul Islam
Vice President
Credit Rating Information and Services Limited