HABIB Bank Limited
Market Discipline Disclosure Framework
As on December 31, 2018

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.

The Bank follows 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-III:

- 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-III is applied at the Bank level only.

2. Disclosure Framework:

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

3. Capital structure

<table>
<tr><td>Qualitative Disclosures</td><td>(a)</td><td>Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of capital instruments eligible for inclusion in CET 1, Additional Tier 1 or Tier 2.

The Bank's Capital structure consists of Tier -I Capital and Tier-II Capital. Tier I capital is further categorized as Common Equity Tier 1 (CET1) and Additional Tier 1. The composition of the amount of Common Equity Tier I, Additional Tier I and Tier II capital shall be subject to the following conditions:

Tier 1 Capital (going-concern capital):
• Common Equity Tier 1
• Additional Tier 1

II. Tier 2 Capital (gone-concern capital):

Common Equity Tier 1 Capital: It is called ‘Core Capital’ comprises of highest quality of capital elements consists of –</td></tr>
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- Funds from Head Office for the purpose of meeting the capital adequacy
- Statutory reserves kept in books in Bangladesh
- Retained earnings
- Actuarial gain/loss kept in books in Bangladesh
- Non-repatriable interest-free funds from Head Office for the purpose of acquisition of property and held in a separate account and have the ability to absorb losses regardless of their source

Less: Regulatory adjustments applicable on CET1

Additional Tier 1:

- Head Office borrowings in foreign currency by foreign banks operating in Bangladesh for inclusion in Additional Tier 1 capital which comply with the regulatory requirements
- Any other item specifically allowed by BB from time to time for inclusion in Additional Tier 1 capital

Less: Regulatory adjustments regulatory adjustments applicable on AT1 Capital

Tier-2 Capital: It is called 'gone-concern capital' represents other elements which fall short of some of the characteristics of the core capital consists of

- General Provisions
- Head Office (HO) borrowings in foreign currency received that meet the criteria of Tier 2 debt capital

Less: Regulatory adjustments applicable on Tier 2 capital

Compliance Status	2018
The Bank must maintain at least 4.50% of total Risk Weighted Assets (RWA) as Common Equity Tier I capital;	Complied
Tier I capital will be at least 6.00% of the total RWA;	Complied
Minimum Capital to Risk-weighted Asset Ratio (CRAR) will be 10% of the total RWA;	Complied
Additional Tier I capital can be maximum up to 1.5% of the total RWA or 33.33% of CET 1, whichever is higher;	Complied
Tier II capital can be maximum up to 4% of the total RWA or 88.89% of CET1, whichever is higher; and	Complied
In addition to minimum CRAR, Capital Conservation Buffer (CCB) @ 0.625% to 2.50% of the total RWA will be maintained in the form of CET1 in a phased manner from 2016 to 2019.	Complied

Quantitative Disclosures

(b) **The amount of Regulatory capital, with separate disclosure of CET1 Capital, Additional Tier 1 Capital and Tier 2 Capital**

As on the reporting date 31st December 2018, the Bank had a consolidated capital of BDT 4,471.02 million comprising Common Equity Tier-1 Capital (CET-1) of BDT 4,409.40 million and tier 2 Capital (Gone-Concern capital) of BDT 61.62 million. Following table presents component wise details of capital (Tier I & II) as on reporting date i.e. 31 December 2018:

AS Per BASEL-III		
Regulatory Capital	**2018**	**2017**
Tier-I Capital		
Fully Paid-up Capital/Funds from Head Office for Meeting the Capital Adequacy	4,316,210,283	4,265,155,187
Retained Earnings	96,009,120	124,577,957
Sub-Total	**4,412,219,403**	**4,389,733,144**
Less: Regulatory Adjustments Goodwill and all other Intangible Assets	(2,823,759)	-
Common Equity Tier-1 Capital (CET-1)	**4,409,395,644**	**4,389,733,144**
Additional Tier-1 Capital (AT-1)	-	-
Sub-Total	**4,409,395,644**	**4,389,733,144**
Tier-2 Capital (Gone-Concern Capital)		
General Provision	54,823,000	54,542,000
Revaluation Reserve as on 31 December 2014 (50% of fixed asset and securities and 10% equity) minus (-) Regulatory Adjustment (Revaluation Reserve of fixed assets securities and equity securities (follow phase-in-deduction as per BASEL_III) guideline.	6,797,009	13,594,019
Sub-Total	**61,620,009**	**68,136,019**
Total Regulatory Capital	**4,471,015,653**	**4,457,869,163**

*General provisions/general loan-loss reserve eligible for inclusion in Tier 2 will be limited to a maximum 1.25 percentage points of credit risk-weighted assets calculated under the standardized approach.

4. Capital Adequacy

Qualitative Disclosures	(a)	**A summary discussion of the bank's approach to assessing the adequacy of its capital to support current and future activities.** 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 always and to maintain good ratings. HBL focuses on strengthening risk management and control environment for capital maintenance and optimization. Besides meeting regulatory capital requirement, the Bank maintains adequate capital to absorb material risks foreseen. Therefore, the Bank's Capital to Risk Weighted Assets Ratio (CRAR) remains consistently above 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 mitigates 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.
Qualitative Disclosures	(a)	**Capital requirement for Credit Risk, Market Risk & Operational Risk**

Risk Weighted Assets	AS per BASEL-III	
	2018	2017
On balance sheet exposures	2,802,653,472	4,066,215,378
Off-balance sheet exposures	1,202,505,376	597,302,260
Total Credit Risk	**4,005,158,848**	**4,663,517,638**
Market Risk	**22,673,995**	**24,785,119**
Operational Risk	**584,260,275**	**601,856,764**
Total Risk Weighted Asset	**4,612,093,118**	**5,290,159,521**

Capital Requirement for Credit Risk*	475,612,613	524,645,734
Capital Requirement for Market Risk*	2,692,537	2,788,326
Capital Requirement for Operational Risk*	69,380,908	67,708,886
Total Capital Requirement as per Basel III	**547,686,058**	**595,142,946**
Minimum Capital Requirement	**4,000,000,000**	**4,000,000,000**
Actual Capital Maintained	**4,471,015,653**	**4,457,869,164**
Surplus	**471,015,653**	**457,869,164**

*Capital Requirement is calculated based on MCR + Capital Conservation Buffer

5. Credit Risk

Qualitative Disclosures (a)

A summary discussion of the bank's approach to assessing the adequacy of its capital to support current and future activities.

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 mitigates is carefully assessed considering 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 2015.

Qualitative Disclosures (b)

Total gross credit risk exposures broken down by major types of credit exposure.

Particulars	AS per BASEL-III	
	2018	2017
Gross Credit Risk Exposures:		
Funded	11,395,397,588	12,401,476,108
Non-funded	1,067,061,694	545,182,729
Total	**12,462,459,282**	**12,946,658,837**

Distribution of Risk Exposures by Claims:		
Cash and cash equivalents	5,247,211,461	5,649,407,483
Claims on Sovereigns and central Bank	-	-
Claims on Banks	952,418,957	890,874,385
Claims on Corporate	3,404,035,038	4,098,293,862
Claims on small and medium enterprise	243,560,155	222,644,030
Claims under Credit Risk Mitigation	210,997,220	199,552,837
Claims on consumer's loans	-	-
Claims secured by residential properties	-	-
Claims secured by commercial real state	-	-
Past due loans & NPLs	305,222,809	290,677,122
Total	**10,363,445,640**	**11,351,449,719**

Credit Risk Mitigation:

Particulars	2018	2017
Claims secured by financial collateral	210,997,220	199,552,837
Net exposures after the application of haircuts claims secured by eligible guarantee	4,455,569	1,853,840

(c) **Geographica1 distribution of exposures, broken down in significant areas by major types of credit exposure.**

Particulars	2018	2017
Dhaka Division	3,230,761,158	3,714,746,085
Chittagong Division	1,120,619,019	1,181,781,525
Sylhet Division	80,182,123	86,498,690
Total	**4,431,562,300**	**4,983,026,300**

(d) **Industry or counterparty type distribution of exposures, broken down by major types of credit exposure.**

Particulars	2018	2017
Automobile and transportation equipment	3,565,885	3,565,885
Metals and allied	289,362,429	352,481,034
Chemicals and pharmaceuticals	284,838,477	415,036,283
Electronics and electrical appliances	-	-
Shoes and leather garments	307,295,911	303,534,778
Textile	196,785,884	220,881,608
Foods, tobacco, beverages, and sugar	624,049,621	746,278,946
General traders	594,954,142	676,017,185
Others	2,130,709,951	2,265,230,581
Total	**4,431,562,300**	**4,983,026,300**

(e) **Residual contractual maturity breakdown of the whole portfolio, broken down by major types of credit exposure.**

Particulars	2018	2017
Repayable on demand	193,814,673	280,695,288
Up to 1 month	1,196,826,933	892,305,270
Over 1 month but below 3 months	1,063,541,089	1,240,481,419
Over 3 months but below 1 year	1,360,875,954	1,826,927,960
Over 1 year but below 5 years	593,457,211	711,888,442
More than 5 years	23,046,441	30,727,922
Total	**4,431,562,300**	**4,983,026,300**

	(f)	

Particulars	2018	2017
Gross Non-Performing Assets (NPAs)	420,706,315	424,071,135
Non-Performing Assets (NPAs) to Outstanding Loans& advances	9.49%	8.51%

Movement of Non-Performing Assets (NPAs)

Particulars	2018	2017
Opening balance	424,071,135	472,997,899
Net movement during the year	(3,364,820)	(48,926,764)
Closing balance	420,706,315	424,071,135

Movement of specific provisions for NPAs

Particulars	2018	2017
Opening balance	263,096,021	264,787,696
Written off during the period	-	(482,875)
Recovers during the period	(2,380,580)	(1,208,800)
Provision made during the period	-	-
Closing balance of specific provision	**260,715,441**	**263,096,021**

6. **Equities: Disclosures for Banking book positions**
   The Bank does not hold trading position in equities.

7. **Interest rate risk in the banking book (IRRBB)**

Qualitative Disclosures	(a)	**The general qualitative disclosure requirement including the nature of IRRBB and key assumptions, including assumptions regarding loan prepayments and behavior of non-maturity deposits, and frequency of IRRBB measurement.** Interest rate risk is the risk where changes in market interest rates might adversely affect a bank's financial condition. It is the risk related to interest income arising from a mismatch between the duration of assets and liabilities that arises in the normal course of business activities. ALCO is responsible for management of the balance sheet of the Bank with a view to manage the market risk exposure assumed by the Bank within the approved risk appetite. Upon review of the indicators of IRRBB and the impact thereof, ALCO may suggest necessary corrective actions to rearrange the exposure with the current assessment of the market's dynamics.
Quantitative Disclosures	(b)	**The increase (decline) in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to management's method of measuring IRRBB, broken down by currency**

Particulars	2018 (Amount in Crore)		
Market Value of Assets	1163.75		
Market Value of Liabilities	716.60		
Weighted Average of Duration of Assets (DA)	0.28		
Weighted Average of Duration of Liabilities (DL)	0.29		
Duration GAP (DA-DL)	0.10		
Yield to Maturity (YTM-Assets)	5.08%		
Yield to Maturity (YTM-Liability)	4.43%		
Magnitude of Interest Rate Change	1%	2%	3%
Change in market value of equity due to increase in interest rate (BDT Crore)	-1.09	-2.17	-3.26
Stress Testing			
Regulatory capital (after shock)	446.01	444.93	443.84
RWA (after shock)	439.08	439.08	439.08
CAR (after shock)	101.58%	101.33%	101.08%

8. Market risk

Qualitative Disclosures

(a) Market risk is the potential for loss of earnings or economic value due to adverse changes in financial market rates or prices.

Views of BOD on trading/investment activities

The Bank being a branch of a foreign bank does not have a local Board of Directors.

Methods used to measure Market risk

The Bank employs conventional methodologies for the measurement of Market Risk due to operational ease and simplicity. These involve the monitoring of risk by using notional (amount) based limits and sensitivity limits. In addition, stress testing and VaR are being exercised to measure the downside risk under normal conditions. Asset Liability Committee (ALCO) of the Bank reviews and monitors the requisite ratios and limits and ensures maximum benefits out of the resources under the controlled risk management environment.

(c) Market Risk Management System:

Market Risk Management	
Managed by	Country Risk Manager
Responsibilities	Identifying, measuring, monitoring and reporting of exposures taken on the banking book. Analyzing recent data to make assessments about the Bank's Market Risk exposures and review compliance with the risk limits approved by the Market Risk (HOK)

		Reported Generated: Risk Management reports relating to monitoring limit branches and exception reports pertain to market risk **Source of Information**: Treasury front office/Back Office/Middle Office. Finance/IT **(d) Policies and Processes for mitigating market risk:** The bank has set different limits in line with its policy to deal with market risk issues within the approved risk appetite. Bank monitors treasury limits, ensures revaluation of investments and reviews Risk Sensitive Assets and Liabilities along with Earning at Risk (EAR) on regular intervals. Besides, Foreign Exchange Exposures limit, VaR limit, Country Party limit and Dealer limit are monitored on daily basis to ensure the market risk exposures are within approved risk parameters of the bank.
Quantitative Disclosures	(b)	**The Capital Requirements For:**

Particulars	2018	2017
Interest Rate Risk	214,425	203,311
Equity Position Risk	-	-
Foreign Exchange Risk	2,052,975	2,275,201
Commodity Risk	-	-
Total	**2,267,400**	**2,478,512**

9. Operational Risk

Qualitative Disclosures	(a)	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. **Views of BOD on trading/investment activities** The Bank being a branch of a foreign bank does not have a local Board of Directors **Performance gap of executives and staffs** HBL is strongly committed towards developing and retaining efficient, competent and highly motivated workforce that creates and strengthens a competitive work environment. The Bank aggressively promotes performance culture with an objective to encourage a work environment of high performance and merit-based compensation. The bank's performance cycle involves one-one discussion with the team members about job performance, career aspirations besides training and development needs, based on which performance gaps are being identified for taking appropriate measures including but not limited to arranging internal and external training programs to enhance current and future skills of the employees with a view to their holistic development as

professionals. The training functions of the Bank are integrated into the Banks strategic management process which cascades out into individual targets and the performance management process.

Policies and processes for mitigating operational risk

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 forced shut down due to political instability, threat of vandalism to the bank’s sophisticated physical outlets including IT equipment, etc.

Approach for calculating capital charge for operational risk

The Bank follows the Basic Indicator Approach (BIA. The BIA specifies the capital charge for operational risk is a fixed percentage, denoted by α (alpha) of average positive annual gross income of the Bank over the past three years. It also states that if the annual gross income for any year is negative or zero, that should be excluded from both the numerator and denominator when calculating the average gross income. The capital charge for operational risk is computed by applying the following formula:

$K = [(GI\ 1 + GI\ 2 + GI\ 3)\ \alpha]/n$

Where

- K = the capital charge under the Basic Indicator Approach
- GI = only positive annual gross income over the previous three years (i.e., negative or zero gross income if any shall be excluded)
- α = 15 percent

n = number of the previous three years for which gross income is positive.

Quantitative Disclosures (b) **The capital requirements for operational risk**

Particulars	**2018**	**2017**
Last three year's average Gross Income (GI)	389,506,850	401,237,843
Capital charge required 15% of Gross Income (GI)	58,426,027	60,185,676

10. Liquidity Ratio

Qualitative Disclosures (a) Liquidity Risk is the risk that the bank does not have sufficient financial resources to meet its obligations as they fall due or will have to do so at excessive cost. The risk arises from mismatch in the timing of cash flows. Effective liquidity risk management helps ensure a bank’s ability to meet cash flow obligations, which are uncertain as they are affected by external events and other factors.

Views of BOD on system to reduce liquidity Risk

The Bank being a branch of a foreign bank does not have a local Board of Directors

Methods used to measure Liquidity risk

Liquidity risk management is of paramount importance because a liquidity shortfall at a single institution can have system wide repercussions. The measurement tools those are used to assess liquidity risks are:

- Liquidity Coverage Ratio (LCR)
- Net Stable Funding Ratio (NSFR)
- Statutory Liquidity Requirement (SLR)
- Cash Reserve Ratio (CRR)
- Asset to Deposit Ratio (ADR)
- Structural Liquidity Profile (SLP)
- Regulatory Liquidity Indicators (RLIs)
- Maximum Cumulative Outflow (MCO)
- Volatile Liability Dependency Ratio
- Liquid Asset to Total Deposit Ratio
- Liquid Asset to Short Term Liabilities

Liquidity risk management system

The Liquidity Risk Management Framework of the Bank is based on following principles:

- Establishing liquidity risk tolerance level on the basis of banking operations, client base, funding needs and economic conditions etc.
- Keeping a cushion of liquid assets in order to retain a certain adequate level of liquidity
- Identifying and measuring full range of liquidity risks, including risks posed by off-balance sheet items
- Designing and using stress test scenarios
- Preparing an operational Contingency Funding Plan

Policies and processes for mitigating liquidity risk

Liquidity measurement and management involves Liquidity Maturity Gap analysis and monitoring of different Liquidity Ratios. Besides, as per regulatory guidelines, the Bank has adopted Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) for liquidity risk management as devised by BASEL Committee to strengthen its liquidity framework. LCR ensures that banks maintain enough high quality unencumbered liquid assets to meet its liquidity needs for 30 calendar time-line whereas NSFR ensures availability of stable funding is greater than required funding over 1-year period.

Asset Liability Management Committee (ALCO) of the Bank reviews and monitors the liquidity parameters and ratios and ensures maximum benefits out of the resources under the controlled risk management environment

Quantitative Disclosures (b)

Particulars	2018	2017
Liquidity coverage ratio (%	408.87%	120.24%
Net Stable Funding Ratio (%)	111.18%	102.95%
Stock of High-quality liquid assets	1,113,224,420	1,091,358,551

Total net cash outflows over the next 30 calendar days

Particulars	2018	2017
Available amount of stable funding	9,768,129,446	9,818,441,708
Required amount of stable funding	8,786,165,902	9,536,729,870

11. Leverage Ratio

Qualitative Disclosures	(a)	**Views of BOD on system to reduce liquidity Risk** The Bank being a branch of a foreign bank does not have a local Board of Directors **Policies and processes for managing excessive on and off-balance sheet leverage** The Bank has adopted measuring leverage ratio as per the guidelines of the Central Bank for implementation of guidelines under Basel III Accord **Approach for calculating exposure** The numerator, capital measure is calculated using the new definition of Tier I capital applicable from 01 January 2015. The denominator, exposure measure, is calculated based on the Basel III leverage ratio framework as adopted by the Bangladesh Bank. $\text{Leverage Ratio} = \dfrac{\text{Tier 1 Capital (after related deductions)}}{\text{Total Exposure (after related deductions)}}$
Quantitative Disclosures	(b)	

Particulars	**2018**	**2017**
Leverage ratio	36.22%	35.19%
On balance sheet exposure	11,006,988,414	11,831,235,787
Off balance sheet exposure	1,170,051,949	642,638,042
Total Deduction from Off-Balance Sheet Exposure/Regulatory adjustments made to Tier 1 capital	2,823,759	
Total exposure	**12,174,216,604**	**12,473,873,829**

12. Remuneration:

Qualitative	**A.**	**Information relating to the bodies that oversee remuneration. Disclosures should include:** **Name, composition and mandate of the main body overseeing remuneration.** The remuneration of HBL local based employees are administered through the compensation policy of the Bank which is developed with appropriate input and guidance from the Board Human Resource and Remuneration Committee, HBL Head Office, Pakistan (hereinafter referred as HR&RC). The Committee consists of the following members as on 31st December 2018: • Agha Sher Shah, Chairman • Sultan Ali Allana, Member • Shaffiq Dharamshi, Member • Sadia Khan, Member • Jamal Nasir, Secretary Regional General Manager of HBL Bangladesh recommends necessary changes to Head Office from time to time for onward review by HR, Head Office and onward approval by the HR&RC. **External consultants whose advice has been sought, the body by which they were commissioned, and in what areas of the remuneration process.** HBL does not have any separate body or external consultants for providing advice on regular basis. However, we on-board consultants as and when required for reviewing on the industry practice on remuneration for aligning HBL practices with the market. **A description of the scope of the bank's remuneration policy (e.g. by regions, business lines), including the extent to which it is applicable to foreign subsidiaries and branches.** HBL's policy is applicable to all the employees of the Bank. **A description of the types of employees considered as material risk takers and as senior managers, including the number of employees in each group**. All Management Committee members of HBL Bangladesh and senior officials of HBL Head Office, Karachi is considered as material risk takers.
	B.	**Information relating to the design and structure of remuneration processes.** **Disclosures should include:** **An overview of the key features and objectives of remuneration policy.** **Whether the remuneration committee reviewed the firm's remuneration policy during the past year, and if so, an overview of any changes that were made.**

		HBL is committed to providing a total compensation package that enables the Bank to attract and retain highly skilled, talented and motivated employees for all positions. HBL goal is three-fold: • To compete for qualified staff in an evolving environment, • To pay employees equitably and fairly and, • To be fiscally responsible HBL believes in rewarding employees through Total Pay concept. The overall compensation structure is appropriately balanced between Fixed & Variable amounts and includes: • Fixed Pay o Basic Pay o Cash Allowances o Guaranteed Benefits • Variable Pay Fixed Portion of compensation consists of Basic Pay, Cash Allowances & Guaranteed Benefits. Cash Allowances comprise of any allowance or monetized benefit prescribed by the Bank from time to time. Guaranteed benefits include End of service benefits and/or any other benefit prescribed by the Bank. Structure of allowances & benefits stated above depends on the Bank's policy and is applicable to employees as per their entitlements. These allowance & benefits may vary subject to change in Bank's policy, law of land or taxation regulations; however, any change in the structure or entitlement shall be communicated to the employee by the Management. Variable Portion consists of Variable pay in the form of Rewards paid to employees as an incentive for demonstrating highly exemplary performance and contributing significantly towards accomplishing overall units / business objectives that is inspirational to others. Variable incentive is given on an annual basis or depending on performance of organization, business and employee. **A discussion of how the bank ensures that risk and compliance employees are remunerated independently of the businesses they oversee.** As per the Bank's org-chart, risk and compliance functions reports directly to their counterpart at Head Office, Karachi, Pakistan. As such their remuneration is reviewed based on their own performance in their respective areas which is not linked to Bangladesh business performance.

	C.	**Description of the ways in which current and future risks are taken into account in the remuneration processes. Disclosures should include:** **An overview of the key risks that the bank takes into account when implementing remuneration measures.** Financial sector being highly competitive, remuneration process usually driven by the changing market forces. HBL carries out market survey from time to time for taking into consideration of the market dynamics and accordingly takes initiatives to align internal compensation practices. Staff turnover, shortage of skilled manpower, attracting and retention of talents, leadership development are some of the risks that the bank in general faces in the country. **An overview of the nature and type of the key measures used to take account of these risks, including risks difficult to measure (values need not be disclosed).** HBL is committed to providing a market driven compensation package reviewed from time to time that enables the Bank to attract and retain highly skilled, talented and motivated employees for all positions. HBL also undertakes market survey on compensation and benefit from time to time to review market dynamics and adjust internal practices accordingly. **A discussion of the ways in which these measures affect remuneration.** Above mentioned measures are required to ensure market driven compensation and benefit package for HBL employees ensuring internal and external parity. **A discussion of how the nature and type of these measures has changed over the past year and reasons for the change, as well as the impact of changes on remuneration.** No major change taken place last year.
	D.	**Description of the ways in which the bank seeks to link performance during a performance measurement period with levels of remuneration. Disclosures should include:** **An overview of main performance metrics for bank, top-level business lines and individuals.** HBL aggressively promotes "Pay for Performance Culture" with an objective to encourage a work environment of high performance and merit-based compensation. The Bank aims to effectively manage people's performance and achieve high level of organizational excellence.

		Performance evaluation of the employees depends on achievement in below three key areas: i. Business Results ii. Customer Satisfaction iii. Employee Satisfaction **A discussion of how amounts of individual remuneration are linked to bank-wide and individual performance.** Annual performance review exercise takes employees achievement's in above three categories for ensuring 'Pay for Performance Culture'. **A discussion of the measures the bank will in general implement to adjust remuneration in the event that performance metrics are weak.** The bank strictly follows performance management guidelines to assess individual performance against assigned Key Performance Indicators.
	E.	**Description of the ways in which the bank seeks to adjust remuneration to take account of longer-term performance. Disclosures should include:** **A discussion of the bank's policy on deferral and vesting of variable remuneration and, if the fraction of variable remuneration that is deferred differs across employees or groups of employees, a description of the factors that determine the fraction and their relative importance.** The Bank does not practice deferred payment system as part of variable remuneration. **A discussion of the bank's policy and criteria for adjusting deferred remuneration before vesting and (if permitted by national law) after vesting through claw back arrangements.** It is not applicable as the bank does not practice deferred payment system.
	F.	**Description of the different forms of variable remuneration that the bank utilizes and the rationale for using these different forms. Disclosures should include:** **An overview of the forms of variable remuneration offered (i.e. cash, shares and share-linked instruments and other forms** The purpose of variable payment is to provide motivational incentive to employees for improving performance. HBL focuses on rewarding consistently high performers. Following variable remuneration is available at HBL:

		Performance reward: The performance reward system is designed to recognize the employees of the Bank who have made substantial contributions to their divisions or who have otherwise contributed or performed in a manner which shall reflect favorably on the individual and HBL Country office. **Long service awards:** Long service awards are being provided to employees to recognize the dedicated continued service of staff on completion of 10, 20 and 25 years. **A discussion of the use of the different forms of variable remuneration and, if the mix of different forms of variable remuneration differs across employees or groups of employees), a description the factors that determine the mix and their relative importance.** Above mentioned variable payments are applicable to all employees irrespective of grade.

Quantitative	**G.**	Number of meetings held by the main body overseeing remuneration during the financial year and remuneration paid to its member.	**6 meetings**	
	H.	Number of employees having received a variable remuneration award during the financial year.	**36 employees**	
		Number and total amount of guaranteed bonuses awarded during the financial year.	**3 bonuses**	**BDT 13,955,831**
		Number and total amount of sign-on awards made during the financial year.	**Nil**	
		Number and total amount of severance payments made during the financial year.	**Nil**	
	I.	Total amount of outstanding deferred remuneration, split into cash, shares and share-linked instruments and other forms.	**Nil**	
		Total amount of deferred remuneration paid out in the financial year.	**Nil**	
	J.	Breakdown of amount of remuneration awards for the financial year to show:		
		- fixed and variable.	**Fixed: BDT 13,955,831** **Variable: BDT 3,374,744**	
		- deferred and non-deferred.	**Nil**	
		- different forms used (cash, shares and share linked instruments, other forms).	**Cash**	

	K.	Quantitative information about employees' exposure to implicit (e.g. fluctuations in the value of shares or performance units) and explicit adjustments (e.g. claw backs or similar reversals or downward revaluations of awards) of deferred remuneration and retained remuneration: Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and/or implicit adjustments. Total amount of reductions during the financial year due to ex post explicit adjustments. Total amount of reductions during the financial year due to ex post implicit adjustments.	**Nil** **Nil**