

**HABIB Bank Limited**  
**Market Discipline Disclosure Framework**  
**As on December 31, 2023**

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 Financial Reporting Council Bangladesh (FRC).

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:	a)	Bank has no subsidiaries or significant investment and BASEL-III is applied at the Bank level only.
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**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**

Qualitative Disclosures	(a)	<p><b>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.</b></p> <p>The Bank's Capital structure consists of Tier -1 Capital and Tier-II Capital. Tier 1 capital is further categorized as Common Equity Tier 1 (CET1) and Additional Tier 1. The composition of the amount of Common Equity Tier 1, Additional Tier 1 and Tier 2 capital shall be subject to the following conditions:</p> <p><b>I. Tier 1 Capital (going-concern capital)</b></p> <ul style="list-style-type: none"> <li>• Common Equity Tier 1</li> <li>• Additional Tier 1</li> </ul> <p><b>II. Tier 2 Capital (gone-concern capital)</b></p>
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**Common Equity Tier 1 Capital:** It is called ‘Going Concern Capital’. It comprises of highest quality of capital elements. It consists of –

- 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 Bangladesh Bank 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’. It represents other elements which fall short of some of the characteristics of the core capital. It 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

<b>Compliance Status</b>	<b>2023</b>
The Bank must maintain at least 4.50% of total Risk Weighted Assets (RWA) as Common Equity Tier 1 capital;	Complied
Tier 1 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 1 capital can be admitted maximum up to 1.5% of the total RWA or 33.33% of CET 1, whichever is higher;	Complied
Tier 2 capital can be admitted 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) @ 2.5% of the total RWA will be maintained in the form of CET1	Complied

Quantitative Disclosures	(b)	<p><b>The amount of Regulatory capital, with separate disclosure of CET1 Capital, Additional Tier 1 Capital and Tier 2 Capital</b></p> <p>As on the reporting date 31<sup>st</sup> December 2023, the Bank had a consolidated capital of BDT 4,686.57 million comprising Common Equity Tier-1 Capital (CET-1) of BDT 4,619.39 million and tier 2 Capital (Gone-Concern capital) of BDT 67.18 million. Following table presents component wise details of capital (Tier 1 &amp; 2) as on reporting date i.e. 31 December 2023:</p>																																																																
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#### 4. Capital Adequacy

Qualitative Disclosures	(a)	<p><b>A summary discussion of the bank's approach to assessing the adequacy of its capital to support current and future activities.</b></p> <p>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 always meet regulatory capital requirements and to maintain good ratings. HBL focuses on strengthening risk management and control environment for capital maintenance and optimization. Besides meeting regulatory capital requirements, 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.</p> <p>The Bank uses the 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.</p> <p>HBL follows Standardized Approach for computation of capital charge for credit risk, market risk and Basic Indicator Approach is used for assessing operational risk.</p>																																																										
Quantitative Disclosures	(a)	<p><b>Capital requirement for Credit Risk, Market Risk &amp; Operational Risk</b></p> <table border="1" data-bbox="443 1052 1424 1339"> <thead> <tr> <th rowspan="3">Risk Weighted Assets</th> <th colspan="2">AS per BASEL-III</th> </tr> <tr> <th colspan="2">Figure in Million</th> </tr> <tr> <th>2023</th> <th>2022</th> </tr> </thead> <tbody> <tr> <td>On balance sheet exposures</td> <td>2,148.27</td> <td>1,655.40</td> </tr> <tr> <td>Off-balance sheet exposures</td> <td>1,092.72</td> <td>1,142.89</td> </tr> <tr> <td><b>Total Credit Risk Weighted Asset</b></td> <td><b>3,240.99</b></td> <td><b>2,798.29</b></td> </tr> <tr> <td><b>Market Risk Weighted Asset</b></td> <td><b>128.01</b></td> <td><b>166.62</b></td> </tr> <tr> <td><b>Operational Risk Weighted Asset</b></td> <td><b>798.92</b></td> <td><b>670.28</b></td> </tr> <tr> <td><b>Total Risk Weighted Asset</b></td> <td><b>4,167.92</b></td> <td><b>3,635.19</b></td> </tr> </tbody> </table> <table border="1" data-bbox="443 1367 1424 1801"> <tbody> <tr> <td>Capital Requirement for Credit Risk*</td> <td>324.10</td> <td>279.83</td> </tr> <tr> <td>Capital Requirement for Market Risk*</td> <td>12.80</td> <td>16.66</td> </tr> <tr> <td>Capital Requirement for Operational Risk*</td> <td>79.89</td> <td>67.03</td> </tr> <tr> <td><b>Total Capital Requirement as per Basel III</b></td> <td><b>416.79</b></td> <td><b>363.52</b></td> </tr> <tr> <td><b>Minimum Capital Requirement</b></td> <td><b>5,000.00</b></td> <td><b>4,000.00</b></td> </tr> <tr> <td><b>Actual Capital Maintained</b></td> <td><b>4,686.57</b></td> <td><b>4,531.15</b></td> </tr> <tr> <td>Available Capital under Pillar II requirement</td> <td>(313.43)</td> <td>531.15</td> </tr> <tr> <td>Common Equity Tier-1 (CET-1) Capital Ratio</td> <td>110.83%</td> <td>122.90%</td> </tr> <tr> <td>Tier-2 Capital Ratio</td> <td>1.61%</td> <td>1.74%</td> </tr> <tr> <td>Capital to Risk Weighted Assets Ratio (CRAR)</td> <td>112.44%</td> <td>124.65%</td> </tr> <tr> <td>Capital Conservation Buffer (2.5% of RWA)</td> <td>102.44%</td> <td>114.65%</td> </tr> </tbody> </table> <p>*Considering the Minimum Capital Requirement, 10% of the Total Risk Weighted Assets is considered.</p>	Risk Weighted Assets	AS per BASEL-III		Figure in Million		2023	2022	On balance sheet exposures	2,148.27	1,655.40	Off-balance sheet exposures	1,092.72	1,142.89	<b>Total Credit Risk Weighted Asset</b>	<b>3,240.99</b>	<b>2,798.29</b>	<b>Market Risk Weighted Asset</b>	<b>128.01</b>	<b>166.62</b>	<b>Operational Risk Weighted Asset</b>	<b>798.92</b>	<b>670.28</b>	<b>Total Risk Weighted Asset</b>	<b>4,167.92</b>	<b>3,635.19</b>	Capital Requirement for Credit Risk*	324.10	279.83	Capital Requirement for Market Risk*	12.80	16.66	Capital Requirement for Operational Risk*	79.89	67.03	<b>Total Capital Requirement as per Basel III</b>	<b>416.79</b>	<b>363.52</b>	<b>Minimum Capital Requirement</b>	<b>5,000.00</b>	<b>4,000.00</b>	<b>Actual Capital Maintained</b>	<b>4,686.57</b>	<b>4,531.15</b>	Available Capital under Pillar II requirement	(313.43)	531.15	Common Equity Tier-1 (CET-1) Capital Ratio	110.83%	122.90%	Tier-2 Capital Ratio	1.61%	1.74%	Capital to Risk Weighted Assets Ratio (CRAR)	112.44%	124.65%	Capital Conservation Buffer (2.5% of RWA)	102.44%	114.65%
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## 5. Credit Risk

Qualitative Disclosures	<p>(a) <b>A summary discussion of the bank’s approach to assessing the adequacy of its capital to support current and future activities.</b></p> <p>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 Risk Management 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:</p> <ul style="list-style-type: none"> <li>• Every extension of credit to any counterparty requires approval by the pre-defined level of authority.</li> <li>• All business groups must apply consistent standards in arriving at their credit decisions.</li> <li>• Every material change to a credit facility requires approval at the appropriate/pre-defined level</li> <li>• Credit approval authority is assigned to individuals according to their qualifications and experience.</li> </ul> <p>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.</p> <p>Potential credit losses from any given account, customer or portfolio are mitigated using a range of tools such as collateral, 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.</p> <p>To define past due and impairment through classification and provisioning, the bank follows Bangladesh Bank Circulars and Guidelines issued from time to time. The Master Circular on loan classification and provisioning issued by Bangladesh Bank vide BRPD circular no. 14 dated 23 September 2012 and subsequent modifications are being meticulously followed.</p>																			
Quantitative Disclosures	<p>(b) <b>Total gross credit risk exposures broken down by major types of credit exposure.</b></p> <table border="1" data-bbox="435 1680 1425 1900"> <thead> <tr> <th rowspan="3">Particulars</th> <th colspan="2">AS per BASEL-III</th> </tr> <tr> <th colspan="2"><i>Figure in Million</i></th> </tr> <tr> <th>2023</th> <th>2022</th> </tr> </thead> <tbody> <tr> <td>Gross Credit Risk Exposures:</td> <td></td> <td></td> </tr> <tr> <td>Funded</td> <td>13,599.60</td> <td>12,908.35</td> </tr> <tr> <td>Non-funded</td> <td>1,740.80</td> <td>2,189.61</td> </tr> <tr> <td><b>Total</b></td> <td><b>15,340.40</b></td> <td><b>15,097.95</b></td> </tr> </tbody> </table>	Particulars	AS per BASEL-III		<i>Figure in Million</i>		2023	2022	Gross Credit Risk Exposures:			Funded	13,599.60	12,908.35	Non-funded	1,740.80	2,189.61	<b>Total</b>	<b>15,340.40</b>	<b>15,097.95</b>
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		Distribution of Risk Exposures by Claims:		
		Cash and cash equivalents	6,579.38	6,463.48
		Claims on Sovereigns and central Bank	-	-
		Claims on Banks	448.00	126.54
		Claims on Corporate	4,174.56	3,926.21
		Claims on small and medium enterprise	211.55	192.35
		Claims under Credit Risk Mitigation	513.56	504.74
		Claims on consumer's loans	-	-
		Claims secured by residential properties	-	-
		Claims secured by commercial real state	-	-
		Past due loans & NPLs	84.51	137.95
		<b>Total</b>	<b>12,011.56</b>	<b>11,351.27</b>
		<b>Credit Risk Mitigation:</b>		
		<b>Particulars</b>	<b>2023</b>	<b>2022</b>
		Claims secured by financial collateral	513.56	504.74
		Net exposures after the application of haircuts	-	-
		claims secured by eligible guarantee	-	-
	(c)	<b>Geographical<sup>1</sup> distribution of exposures, broken down in significant areas by major types of credit exposure.</b>		
		<b>Particulars</b>	<b>2023</b>	<b>2022</b>
		Dhaka Division	4,592.29	4,347.65
		Chattogram Division	648.16	767.37
		Sylhet Division	78.74	76.90
		<b>Total</b>	<b>5,319.18</b>	<b>5,191.92</b>
	(d)	<b>Industry or counterparty type distribution of exposures, broken down by major types of credit exposure.</b>		
		<b>Particulars</b>	<b>2023</b>	<b>2022</b>
		Automobile and transportation equipment	2.44	2.44
		Metals and allied	184.41	189.89
		Chemicals and pharmaceuticals	599.38	485.81
		Textile	265.82	11.64
		Foods, tobacco, beverages, and sugar	1,024.82	1,208.94
		General traders	220.06	356.41
		Others	3,022.26	2,936.78
		<b>Total</b>	<b>5,319.18</b>	<b>5,191.92</b>
	(e)	<b>Residual contractual maturity breakdown of the whole portfolio, broken down by major types of credit exposure.</b>		
		<b>Particulars</b>	<b>2023</b>	<b>2022</b>
		Repayable on demand	449.06	484.70
		Up to 1 month	345.63	221.88
		Over 1 month but below 3 months	1,975.99	1,791.01
		Over 3 months but below 1 year	1,603.17	1,484.45
		Over 1 year but below 5 years	910.38	1,169.59
		More than 5 years	34.95	40.28
		<b>Total</b>	<b>5,319.18</b>	<b>5,191.92</b>

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	<p><b>Movement of Non-Performing Assets (NPAs)</b></p> <table border="1"> <thead> <tr> <th>Particulars</th> <th>2023</th> <th>2022</th> </tr> </thead> <tbody> <tr> <td>Opening balance</td> <td>489.17</td> <td>395.39</td> </tr> <tr> <td>Net movement during the year</td> <td>(136.34)</td> <td>93.77</td> </tr> <tr> <td><b>Closing balance</b></td> <td><b>352.81</b></td> <td><b>489.17</b></td> </tr> </tbody> </table>	Particulars	2023	2022	Opening balance	489.17	395.39	Net movement during the year	(136.34)	93.77	<b>Closing balance</b>	<b>352.81</b>	<b>489.17</b>									
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#### 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)	<p><b>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.</b></p> <p>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.</p>
Quantitative Disclosures	(b)	<p><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</b></p>

	Particulars	2023 (Amount in million)		
		Market Value of Assets	14,536.7	
Market Value of Liabilities	9,177.3			
Weighted Average of Duration of Assets (DA)	1.77			
Weighted Average of Duration of Liabilities (DL)	0.23			
Duration GAP in years	1.63			
Yield to Maturity (YTM-Assets)	6.21%			
Yield to Maturity (YTM-Liability)	3.33%			
Magnitude of Interest Rate Change	1%	2%	3%	
Change in market value of equity due to increase in interest rate	-222.99	-445.99	-668.98	
Stress Testing				
	Minor	Moderate	Major	
Regulatory capital (after shock)	4,463.6	4,240.6	4,017.6	
RWA (after shock)	3,503.6	3,503.6	3,503.6	
CAR (after shock)	127.40%	121.04%	114.67%	

## 8. Market risk

Qualitative Disclosures	(a)	<p>Market risk is the potential for loss of earnings or economic value due to adverse changes in financial market rates or prices.</p> <p><b>Views of BOD on trading/investment activities</b></p> <p>The Bank being a branch of a foreign bank does not have Board of Directors locally.</p> <p><b>Methods used to measure Market risk</b></p> <p>The Bank employs conventional methodologies for the measurement of Market Risk due to operational ease and simplicity. These involve the monitoring of risk by setting various risk limits for banking book. 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.</p> <p><b>(c) Market Risk Management System:</b></p>						
		<table border="1"> <thead> <tr> <th colspan="2">Market Risk Management</th> </tr> </thead> <tbody> <tr> <td><b>Managed by</b></td> <td>Country Risk Manager</td> </tr> <tr> <td><b>Responsibilities</b></td> <td>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) and also as per in Risk Appetite Statement.</td> </tr> <tr> <td><b>Report Generated</b></td> <td>Risk Management reports relating to monitoring limit branches and exception reports pertain to market risk</td> </tr> </tbody> </table>	Market Risk Management		<b>Managed by</b>	Country Risk Manager	<b>Responsibilities</b>	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) and also as per in Risk Appetite Statement.
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		<b>Source of Information</b>	Treasury front office, Treasury Back Office, Treasury Middle Office, Finance, IT	
		<b>(d) Policies and Processes for mitigating market risk:</b>		
		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)	<b>The Capital Requirements For:</b>		
			<i>Figure in Million</i>	
		<b>Particulars</b>	<b>2023</b>	<b>2022</b>
		Interest Rate Risk	0.90	1.67
		Equity Position Risk	-	-
		Foreign Exchange Risk	11.90	15.00
		Commodity Risk	-	-
		<b>Total</b>	<b>12.80</b>	<b>16.67</b>

**9. Operational Risk**

Qualitative Disclosures	(a)	<p>Operational risk refers to the risk of loss resulting from adequate or failed internal processes, people, system or from external events. This definition includes legal risk but excludes strategic and reputational risk. Bank’s objective is to minimize exposure to operational risk, subject to cost tradeoffs. This objective is ensured through a framework of global policies and procedures that drive risk identification, assessment, control and monitoring at business/function, country levels.</p> <p><b>Views of BOD on trading/investment activities</b></p> <p>The Bank being a branch of a foreign bank does not have a local Board of Directors</p> <p><b>Performance gap of executives and staffs</b></p> <p>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.</p> <p>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.</p>
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		<p><b>Policies and processes for mitigating operational risk</b></p> <p>Business operates in an umbrella of interconnected 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. To handle these operational issues, bank has adopted required policy and procedures to ensure Business Continuity. Key Risk Indicators have been identified for areas and being monitored regularly. Loss date &amp; incident reports are also monitored regularly to address the operational issues. Besides, Bank has developed the framework for Risk and Control Self-Assessment (RCSA) to minimize operational risks.</p> <p><b>Approach for calculating capital charge for operational risk</b></p> <p>The Bank follows the Basic Indicator Approach (BIA). The BIA specifies the capital charge for operational risk is a fixed percentage, denoted by <math>\alpha</math> (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:</p> <p><b><math>K = [(GI 1 + GI 2 + GI 3) \alpha]/n</math></b></p> <p>Where</p> <ul style="list-style-type: none"> <li>- K = the capital charge under the Basic Indicator Approach</li> <li>- GI = only positive annual gross income over the previous three years (i.e., negative or zero gross income if any shall be excluded)</li> <li>- <math>\alpha</math> = 15 percent</li> <li>- n = number of the previous three years for which gross income is positive.</li> </ul>									
Quantitative Disclosures	(b)	<p><b>The capital requirements for operational risk</b></p> <p style="text-align: right;"><i>Figure in Million</i></p> <table border="1"> <thead> <tr> <th style="text-align: center;">Particulars</th> <th style="text-align: center;">2023</th> <th style="text-align: center;">2022</th> </tr> </thead> <tbody> <tr> <td>Last three year's average Gross Income (GI)</td> <td style="text-align: right;">532.61</td> <td style="text-align: right;">446.85</td> </tr> <tr> <td>Capital charge required 15% of Gross Income (GI)</td> <td style="text-align: right;">79.89</td> <td style="text-align: right;">67.03</td> </tr> </tbody> </table>	Particulars	2023	2022	Last three year's average Gross Income (GI)	532.61	446.85	Capital charge required 15% of Gross Income (GI)	79.89	67.03
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**10. Liquidity Ratio**

Qualitative Disclosures	(a)	<p>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 a mismatch in the timing of cash flows. Effective liquidity risk management helps to ensure a bank’s ability to meet cash flow obligations, which are uncertain as they are affected by external events and other factors.</p> <p><b>Views of BOD on system to reduce liquidity risk</b></p> <p>The Bank being a branch of a foreign bank does not have a local Board of Directors</p> <p><b>Methods used to measure liquidity risk</b></p>
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	<p>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:</p> <ul style="list-style-type: none"> <li>• Liquidity Coverage Ratio (LCR)</li> <li>• Net Stable Funding Ratio (NSFR)</li> <li>• Statutory Liquidity Requirement (SLR)</li> <li>• Cash Reserve Ratio (CRR)</li> <li>• Asset to Deposit Ratio (ADR)</li> <li>• Structural Liquidity Profile (SLP)</li> <li>• Maximum Cumulative Outflow (MCO)</li> <li>• Volatile Liability Dependency Ratio</li> <li>• Liquid Asset to Total Deposit Ratio</li> <li>• Liquid Asset to Short Term Liabilities</li> </ul> <p><b>Liquidity risk management system</b></p> <p>The Liquidity Risk Management Framework of the Bank is based on following principles:</p> <ul style="list-style-type: none"> <li>• Establishing liquidity risk tolerance level on the basis of banking operations, client base, funding needs and economic conditions etc.</li> <li>• Keeping a cushion of liquid assets in order to retain a certain adequate level of liquidity</li> <li>• Identifying and measuring full range of liquidity risks, including risks posed by off-balance sheet items</li> <li>• Designing and using stress test scenarios</li> <li>• Preparing an operational Contingency Funding Plan</li> </ul> <p><b>Policies and processes for mitigating liquidity risk</b></p> <p>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 days whereas NSFR ensures availability of stable funding is greater than required funding over 1-year period.</p> <p>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.</p>															
Quantitative Disclosures	<p>(b)</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="3" style="text-align: right;"><i>Figure in Million</i></th> </tr> <tr> <th style="text-align: center;">Particulars</th> <th style="text-align: center;">2023</th> <th style="text-align: center;">2022</th> </tr> </thead> <tbody> <tr> <td>Liquidity coverage ratio (%)</td> <td style="text-align: center;">110.06%</td> <td style="text-align: center;">144.63%</td> </tr> <tr> <td>Net Stable Funding Ratio (%)</td> <td style="text-align: center;">119.84%</td> <td style="text-align: center;">100.48%</td> </tr> <tr> <td>Stock of High-quality liquid assets</td> <td style="text-align: center;">1,978.43</td> <td style="text-align: center;">2,194.14</td> </tr> </tbody> </table>	<i>Figure in Million</i>			Particulars	2023	2022	Liquidity coverage ratio (%)	110.06%	144.63%	Net Stable Funding Ratio (%)	119.84%	100.48%	Stock of High-quality liquid assets	1,978.43	2,194.14
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		<b>Total net cash outflows over the next 30 calendar days</b>		
			<i>Figure in Million</i>	
		<b>Particulars</b>	<b>2023</b>	<b>2022</b>
		Available amount of stable funding	12,059.10	10,405.73
		Required amount of stable funding	10,062.48	10,355.73

## 11. Leverage Ratio

Qualitative Disclosures	(a)	<p><b>Views of BOD on system to reduce liquidity risk</b> The Bank being a branch of a foreign bank does not have a local Board of Directors</p> <p><b>Policies and processes for managing excessive on and off-balance sheet leverage</b> The Bank has adopted measuring leverage ratio as per the guidelines of the Central Bank for implementation of guidelines under Basel III Accord</p> <p><b>Approach for calculating exposure</b> 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.</p> $\text{Leverage Ratio} = \frac{\text{Tier 1 Capital (after related deductions)}}{\text{Total Exposure (after related deductions)}}$		
Quantitative Disclosures	(b)	<i>Figure in Million</i>		
		<b>Particulars</b>	<b>2023</b>	<b>2022</b>
		Leverage ratio	29.78%	29.34%
		On balance sheet exposure	13,611.96	12,908.62
		Off balance sheet exposure	1,913.24	2,319.17
		Total Deduction from Off-Balance Sheet Exposure/Regulatory adjustments made to Tier 1 capital	(12.81)	(0.78)
		<b>Total exposure</b>	<b>15,512.39</b>	<b>15,227.01</b>

## 12. Remuneration:

<p><b>Qualitative</b></p>	<p><b>A.</b></p>	<p><b>Information relating to the bodies that oversee remuneration.</b></p> <p>The remuneration of HBL Bangladesh’s employees is 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&amp;RC). The Committee consists of the following members as on 31 December 2023:</p> <ul style="list-style-type: none"> <li>• Khaleel Ahmed, Chairman HR&amp;RC</li> <li>• Sultan Ali Allana, Member HR&amp;RC</li> <li>• Najeeb Samie, Member HR&amp;RC</li> <li>• Shaffiq Dharamshi, Member HR&amp;RC</li> <li>• Jamal Nasir, Secretary HR&amp;RC</li> </ul> <p>Based on the input provided by the Human Resources, Country Manager of HBL Bangladesh recommends necessary changes to the compensation structure to HR, Head Office from time to time for their review and obtaining approval of the HR&amp;RC.</p> <p><b>External consultants whose advice has been sought, the body by which they were commissioned, and in what areas of the remuneration process.</b></p> <p>HBL does not have any separate body or external consultants for providing advice on a 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. We also participate in global survey’s by reputed consultants for Total Rewards, on selective basis, to have fair understanding on the compensation movement and practice by the industry.</p> <p><b>Scope of the bank’s remuneration policy.</b></p> <p>HBL’s policy is applicable to all the employees of the Bank.</p> <p><b>Types of employees considered as material risk takers.</b></p> <p>The Country Manager of HBL Bangladesh and senior officials of HBL Head Office, Karachi are considered as Material Risk Takers (MRT).</p>
	<p><b>B.</b></p>	<p><b>Information relating to the design and structure of remuneration processes.</b></p> <p>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.</p> <p>HBL goal is three-fold:</p> <ul style="list-style-type: none"> <li>• To compete for qualified staff in an evolving environment,</li> <li>• To pay employees equitably and fairly and,</li> <li>• To be fiscally responsible</li> </ul>

	<p>HBL believes in rewarding employees through the Total Pay concept. The overall compensation structure is appropriately balanced between Fixed &amp; Variable amounts and includes:</p> <ul style="list-style-type: none"> <li>• Fixed Pay <ul style="list-style-type: none"> <li>○ Basic Pay</li> <li>○ Cash Allowances</li> <li>○ Guaranteed Benefits</li> </ul> </li> <li>• Variable Pay</li> </ul> <p>Fixed Portion of compensation consists of Basic Pay, Cash Allowances &amp; 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.</p> <p>Structure of allowances &amp; benefits stated above depends on the Bank’s policy and is applicable to employees as per their entitlements. These allowance &amp; 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.</p> <p>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 incentives are given on an annual basis or depending on performance of organization, business, and employee.</p> <p><b>How the bank ensures that risk and compliance employees are remunerated independently of the businesses they oversee.</b></p> <p>As per the Bank’s org-chart, Risk Management, Compliance, and Risk Compliance and Control Unit functions report directly to their counterpart at Head Office, Karachi, Pakistan. As such their remuneration are reviewed based on their own performance in their respective areas which is not linked to Bangladesh business performance.</p>
<p><b>C.</b></p>	<p><b>Description of the ways in which current and future risks are taken into account in the remuneration processes.</b></p> <p>Financial sector being highly competitive, remuneration process usually driven by the changing market forces. HBL carries out market survey from time to time or participates into global survey initiatives, for having a fair understanding on the market dynamics and accordingly takes initiatives to align internal compensation practices.</p> <p>Staff turnover, shortage of skilled manpower, attracting and retention of talents, leadership developments are some of the risks that the bank in general faces in the country.</p> <p><b>An overview of the nature and type of the key measures used to take account of these risks.</b></p>

	<p>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.</p> <p>HBL also undertakes or participates in the market survey on compensation and benefit from time to time to review market dynamics and adjust internal practices accordingly.</p> <p><b>A discussion of the ways in which these measures affect remuneration.</b></p> <p>Above mentioned measures are required to ensure market driven compensation and benefit package for HBL employees ensuring internal and external parity. The same is reflected in HBL Bangladesh’s revised compensation structure.</p> <p><b>A discussion of how the nature and type of these measures has changed over the past year.</b></p> <p>We have restructured the overall compensation and benefit structure of HBL Bangladesh in 2020.</p>
<p><b>D.</b></p>	<p><b>Description of the ways in which the bank seeks to link performance during a performance measurement period with levels of remuneration.</b></p> <p>HBL aggressively promotes “Pay for Performance Culture” with an objective to encourage a work environment of high performance and merit-based compensation.</p> <p>The Bank aims to effectively manage people’s performance and achieve high level of organizational excellence.</p> <p>Performance evaluation of the employees depends on achievement in below three key areas:</p> <ul style="list-style-type: none"> <li>i. Business Results</li> <li>ii. Customer Satisfaction</li> <li>iii. Employee Satisfaction</li> </ul> <p>As part of HBL commitments to enhance professional development of the employees and foster environment of growth, the bank also provides promotional opportunities to qualified and competent employees based on the employee’s potential for growth, contribution towards the organization, as well as the past meritorious performance.</p> <p><b>A discussion of how amounts of individual remuneration are linked to bank-wide and individual performance.</b></p> <p>Annual performance review exercise takes employees achievement’s in above three categories for ensuring ‘Pay for Performance Culture’.</p> <p><b>A discussion of the measures the bank will in general implement to adjust remuneration in the event that performance metrics are weak.</b></p>

	<p>The bank strictly follows performance management guidelines to assess individual performance against assigned Key Performance Indicators/ Goals.</p>
<p><b>E.</b></p>	<p><b>Description of the ways in which the bank seek to adjust remuneration to take account of longer-term performance.</b></p> <p>As per the Bank’s Risk Aligned Remuneration policy, 30% of performance reward of Material Risk Takers (MRT) are deferred to be proportionately paid annually with the vesting period of 3 years.</p> <p><b>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.</b></p> <p>Deferred performance bonus of Material Risk Takers is subject to Malus resulting in cancellation or reduction of all or part of the unvested or unpaid amounts. The Bank reserves the right to take return partly or fully, the paid performance reward from the Material Risk Takers (claw back).</p>
<p><b>F.</b></p>	<p><b>Description of the different forms of variable remuneration that the bank utilizes and the rationale for using these different forms.</b></p> <p>The purpose of variable payment is to provide motivational incentive to employees for improving performance. HBL focuses on rewarding consistently high performers.</p> <p>Following variable remuneration is available at HBL:</p> <p><b>Performance reward:</b></p> <p>The performance reward system is designed to recognize the employees of the Bank who have made substantial contributions to their functions or who have otherwise contributed or performed in a manner which shall reflect favorably on the individual and HBL Bangladesh.</p> <p><b>Long term service award:</b></p> <p>Long service awards are being provided to employees to recognize the dedicated continued service of staff on completion of 10, 20 and 25 years.</p> <p><b>Integrity award:</b></p> <p>The procedural guideline of Bangladesh Bank about integrity award have been implemented.</p> <p><b>A discussion of the use of the different forms of variable remuneration.</b></p> <p>Above mentioned variable payments are applicable to all the employees based on defined criterion of the respective policies.</p>



<b>Quantitative</b>	<b>G.</b>	Number of meetings held by the main body overseeing remuneration during the financial year and remuneration paid to its member.	<b>04 meetings</b>		
	<b>H.</b>	Number of employees having received a variable remuneration award during the financial year.	<b>58 employees</b>		
		Number and total amount of guaranteed bonuses awarded during the financial year.	<b>3 bonuses</b>	<b>BDT 20.59 million</b>	
		Number and total amount of sign-on awards made during the financial year.	<b>0.58 million</b>		
		Number and total amount of severance payments made during the financial year.	<b>Nil</b>		
	<b>I.</b>	Total amount of outstanding deferred remuneration, split into cash, shares and share-linked instruments and other forms.	<b>3.62 million</b>		
		Total amount of deferred remuneration paid out in the financial year.	<b>1.19 million</b>		
	<b>J.</b>	Breakdown of amount of remuneration awards for the financial year to show:			
		- fixed and variable.	<b>Fixed:</b> BDT 20.59 million <b>Variable:</b> BDT 11.69 million		
		- deferred and non-deferred	<b>Deferred:</b> BDT 1.19 million (variable) <b>Non-deferred:</b> BDT 11.69 million (variable)		
		- different forms used (cash, shares and share linked instruments, other forms).	<b>Cash</b>		
	<b>K.</b>	Quantitative information about employees' exposure to implicit (e.g. fluctuations in the value of shares or performance units) and explicit adjustments (e.g. clawbacks or similar reversals or downward revaluations of awards) of deferred remuneration and retained remuneration:	<b>Nil</b>		
		Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and/or implicit adjustments.	<b>Nil</b>		
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.					