HABIB Bank Limited
Market Discipline Disclosure Framework
As on December 31, 2015

The following qualitative and quantitative disclosures are provided in accordance with Guidelines on Risk Based Capital Adequacy by Bangladesh Bank. The purpose of these disclosures is to complement minimum capital requirement and Supervisory Review Process.

The disclosures by the Bank are based on 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. As such 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:

Qualitative Disclosure:

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:

- The Bank has to maintain at least 4.50% of total Risk Weighted Assets (RWA) as Common Equity Tier I capital;
- Tier I capital will be at least 5.50% of the total RWA;
- Minimum Capital to Risk-weighted Asset Ratio (CRAR) will be 10% of the total RWA;
- Additional Tier I capital can be maximum up to 1.5% of the total RWA or 33.33% of CET 1, whichever is higher;
- Tier II capital can be maximum up to 4% of the total RWA or 88.89% of CET1, whichever is higher; and
- In addition to minimum CRAR, Capital Conservation Buffer (CCB) @ 0.625% of the total RWA will be maintained in the form of CET1 in a phased manner from 2016 to 2019.

Tier I capital of the Bank includes funds deposited with Bangladesh Bank, actuarial gain/ (loss) and retained earnings. Tier 1 capital is also called 'Core Capital' of the Bank.

Tier II capital consists of general provision and revaluation reserve for Held to Maturity (HTM) and Held for Trading (HFT) securities. General provision for inclusion in Tier II capital is limited to a maximum 1.25% of Credit RWA calculated under the standardized approach. Revaluation reserve for securities shown as Tier II capital as on 31 December 2014 will be nullified in a phased manner at the rate of 20% starting from 2015 and will be fully adjusted by 2020.

Quantitative Disclosures:

As on the reporting date (31 December 2015), the Bank had a consolidated capital of BDT 4,305.81 million comprising Common Equity Tier-1 Capital (CET-1) of BDT 4,224.21 million and tier 2 Capital (Going-Concern capital) of BDT 81.59 million. Following table presents component wise details of capital (Tier I & II) as on reporting date i.e. 31 December 2015:

Amount in BDT

AS Per BASEL-III		As Per BASEL-II	
Regulatory Capital	**2015**	**Regulatory Capital**	**2014**
Tier-I Capital (2+3)		**Core Capital (Tier-I)**	
Common Equity Tier-1 Capital (CET-1)	4,224,912,674	Fund Deposited with Bangladesh Bank	4,062,955,739
Additional Tier-1 Capital (AT-1)	-	Profit and Loss Account Balance	111,280,578
Sub-Total	**4,224,912,674**	**Sub-Total**	**4,174,236,317**
Tier-2 Capital (Going-Concern Capital)		**Supplementary Capital (Tier-II)**	
General Provision (Eligible for inclusion in Tier-II will be limited to a minimum 1.25% of credit risk weighted assets calculated under the standardized approach)	54,405,523	General provision maintained against unclassified loans and advances	60,020,000
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	27,188,037	Revaluation reserve for securities (up to 50%)	33,985,046
Sub-Total	**81,593,560**	**Sub-Total**	**94,005,046**
Total Regulatory Capital	**4,306,506,234**	**Total**	**4,268,241,363**

4. Capital Adequacy

Qualitative Disclosure

The Bank's approach to capital management is driven by its desire to maintain a strong capital base to support the development of its business, to meet regulatory capital requirements at all times and to maintain good ratings. HBL focuses on strengthening risk management and control environment 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 mitigants considered and appropriate levels of capital determined. The capital modeling process is a key part of its management disciplines. A strong governance and process framework is embedded in the Bank's capital planning and assessment methodology. Overall responsibility for the effective management of risk rests with the Risk Management Committee.

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

Quantitative Disclosures:

Following table shows component wise allocation of capital to meet three risks and an amount of additional capital maintained over MCR i.e. 10% of RWA. As on the reporting date i.e. 31 December 2015, HBL maintained a Capital to Risk Weighted Assets Ratio (CRAR) of 86.60% against required minimum of 10%.

Amount in BDT

Risk Weighted Assets	AS per BASEL-III	AS per BASEL-II
	2015	**2014**
On balance sheet exposures	3,468,858,954	5,080,506,685
Off-balance sheet exposures	883,582,851	1,359,412,948
Total Credit Risk	**4,352,441,804**	**6,439,919,633**
Market Risk	**11,932,659**	**40,387,701**
Operational Risk	**607,861,819**	**607,861,819**
Total Risk Weighted Asset	**4,972,236,283**	**7,088,169,153**

Capital requirement for Credit risk	435,244,180	643,991,963
Capital requirement for Market risk	1,193,266	4,038,770
Capital requirement for Operational risk	60,786,182	60,786,182
Total Capital Requirement	**497,223,628**	**708,816,915**
Total regulatory capital	**4,305,812,817**	**4,268,241,363**
Surplus	**3,808,589,189**	**3,559,424,448**

% of Capital Adequacy	AS per BASEL-III		AS per BASEL-II	
	2015		**2014**	
	Required	**Maintained**	**Required**	**Maintain**
Common Equity Tier I capital	4.50%	84.96%	N/A	N/A
Total Tier I capital	5.50%	84.96%	5%	58.89%
Total	10%	86.60%	10%	60.22%

Risk Management

'Risk' is an inherent part of banking business and therefore Risk Management has become the central part of bank's strategic management. Risk Management needs to be addressed with greater importance due to dynamic environment in which the bank operates such as expanding business arenas, increased level of competition; emergence of new financial products, securitization, outsourcing, specialized processing operations, reliance on rapidly evolving technologies, deregulation and globalization of financial activities. These factors have necessitated a need for an effective and structured Risk Management in Banks.

The risk management of the Bank covers all core risk areas of banking.

As like other banking companies, HBL Bangladesh while conducting day to day operations, usually face the following major risks:

a) Credit risk (including concentration risk, country risk, transfer risk, and settlement risk)
b) Market risk (including interest rate risk in the banking book, foreign exchange risk, and equity market risk)
c) Liquidity Risk
d) Operational Risk
e) Other risks (Compliance, strategic, reputation and money laundering risk)

As to manage the risk in an efficient manner, the core principles of HBL are:

- Strict respect to legislative and regulatory obligations and standards established within the overall risk policies
- A duty to care, rigor and transparency towards our clients, in accordance with our traditions of professionalism and integrity
- A willingness to develop business relations only with the counter parties whose identity is properly established and who share the same spirit of integrity and responsibility as our own
- A paramount importance on rules of prudence and good conduct as well as quality and diversification of risks.

5. Credit Risk

Qualitative Disclosures:

Credit risk is the risk of loss due to the failure of a borrower to meet its credit obligations in accordance with agreed contract terms. Credit risk makes up the largest part of bank's risk exposures. The bank's credit process is guided by centrally established credit policies, rules and guidelines continuing a close-to-the market approach with an aim to maintain a well-diversified portfolio of credit risk which produces a reliable and consistent return.

Credit risk policies are established by the HBL's Credit Policy Department and approved by the Board. 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 and other guarantees. The reliance that can be placed on these mitigants is carefully assessed in light of issues such as legal certainty and enforceability, market valuation, and counterparty risk of the guarantor.

To define past due and impairment through classification and provisioning, the bank follows Bangladesh Bank Circulars and Guidelines. The summary of some objective criteria for loan classification and provisioning requirement as stipulated by the central bank in its circulars issued from time to time.

Quantitative Disclosures:

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

Amount in BDT

Particulars	AS per BASEL-III	AS per BASEL-II
	2015	**2014**
Gross Credit Risk Exposures:		
Funded	12,236,733,927	11,315,884,733
Non-funded	1,205,960,803	1,087,530,359
Total	**13,442,694,730**	**12,403,415,092**
Distribution of Risk Exposures by Claims:		
Cash and cash equivalents	6,024,422,088	5,504,830,574
Claims on Sovereigns and central Bank	-	-
Claims on Banks	515,286,558	916,053,322
Claims on Corporate	4,055,614,135	3,057,481,890
Claims on small and medium enterprise	73,901,533	170,110,803
Claims on consumers loans	-	-
Claims secured by residential properties	-	-
Claims secured by commercial real state	-	-
Past due loans & NPLs	268,066,949	559,623,581
Total	**10,208,100,179**	**10,208,100,170**

Credit Risk Mitigation:		
Claims secured by financial collateral	244,508,805	293,102,173
Net exposures after the application of haircuts claims secured by eligible guarantee	34,577,930	13,581,656

Geographical Distribution of Credit Exposure:

Particulars	2015	2014
Dhaka Division	3,533,256,239	3,251,989,809
Chittagong Division	1,298,212,863	1,179,583,476
Sylhet Division	90,059,015	77,333,037
Total	**4,921,528,117**	**4,508,906,322**

Industry Distribution of exposures:

Particulars	2015	2014
Automobile and transportation equipment	3,565,885	3,565,885
Metals and allied	201,579,763	87,314,318
Chemicals and pharmaceuticals	442,027,171	116,470,506
Electronics and electrical appliances	-	211,644,212
Shoes and leather garments	308,420,430	309,899,544
Textile	325,619,032	480,254,428
Foods, tobacco, beverages and sugar	676,912,426	667,466,758
General traders	1,082,006,611	1,003,251,886
Others	1,881,396,801	1,629,038,785
Total	**4,921,528,117**	**4,508,906,322**

Maturity breakdown of credit exposures:

Particulars	2015	2014
Repayable on demand	326,185,867	407,593,401
Up to 1 month	297,189,536	280,877,814
Over 1 month but below 3 months	1,608,614,005	1,035,893,833
Over 3 month but below 1 year	1,574,484,475	1,464,851,733
Over 1 year but below 5 year	1,098,628,491	1,311,888,891
More than 5 years	16,425,744	7,800,650
Total	**4,921,528,118**	**4,508,906,322**

Gross Non-performing Assets (NPAs):

Particulars	AS per BASEL-III	AS per BASEL-II
	2015	2014
Opening balance	627,700,764	572,711,945
Net movement during the year	(152,354,618)	54,988,819
Closing balance	**475,346,146**	**627,700,764**
Non-performing asset (NPAs) to outstanding loans and advances	**9.66%**	**13.92%**

Movement of Specific Provision for (NPAs):

Particulars	AS per BASEL-III	AS per BASEL-II
	2015	2014
Opening balance of specific provision	356,072,133	294,918,760
Written off during the period	(107,993,921)	-
Recoveries during the period	(57,883,643)	(57,772,167)
Provision made during the period	58,535,969	118,925,540
Closing balance of specific provision	**248,730,538**	**356,072,133**

6. Equities: Disclosures for Banking book positions

The Bank does not hold any investment in equities.

7. Interest rate risk in the banking book

Discussed in the next section under market risk

8. Market Risk

Qualitative Disclosures:

Market risk is the risk of decrease in the value of an investment due to moves in market factors in particular, changes in interest rates, foreign exchange rates and equity prices.

Interest rate risk occurs when assets and liabilities mature or re-price at different times. If more liabilities than assets are re-priced in a given period and market interest rate are declining, than the asset/liability spread will increase. Conversely, if more assets than liabilities re-price or mature in a given period, then a decline in market interest rate will reduce the asset/liability interest rate spread. Foreign Exchange risk refers to the risk that a Bank may suffer losses as a result of adverse exchange rate movements during a period in which it has an open position, either in the form of a balance sheet asset or liability account or an off-balance sheet item. Foreign exchange risk arises due to structural imbalance between foreign exchange assets and liabilities, transaction with customers in foreign currencies and foreign exchange denominated revenues and costs.

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.

Qualitative Disclosures:

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

Amount in BDT

Particulars	2015	2014
Capital Requirements For:		
Interest rate risk	623,103	575,802
Equity position risk	-	-
Foreign exchange risk	570,163	3,462,968
Commodity risk	-	-
Total	**1,193,266**	**4,038,770**

9. Operational risk

Qualitative Disclosures:

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

Bank’s Risk Management Committee reviews outstanding operational issues and decides action plans to resolve risk areas by specific individual and/or group within an agreed timeline.

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

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

Quantitative Disclosures

Capital requirement for Operational risk as on 31 December 2015 is as follows

Last three year's average Gross Income (GI)	405,241,213
Capital charge required 15% of Gross Income (GI)	60,786,182

10. Liquidity Risk

Qualitative disclosures:

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. Liquidity risk management is of paramount importance because a liquidity shortfall at a single institution can have system wide repercussions.

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 and
- Managing liquidity on daily basis

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:

Particulars	AS per BASEL-III
	2015
Liquidity coverage ratio (%	203.06%
Net Stable Funding Ratio (%)	106.24%
Stock of High quality liquid assets	1,934,088,046
Available amount of stable funding (ASF)	9,989,523,074
Required amount of stable funding (RSF)	9,402,798,695

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10. Leverage Ratio

Qualitative Disclosures:

To constrain the build-up of leverage in the banking sector and to reinforce the risk based requirements with a simple, non-risk based "backstop" measure, the Bank has adopted measuring leverage ratio as per the guidelines of the Central Bank for implementation of guidelines under Basel III Accord. 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 on the basis of the Basel III leverage ratio framework as adopted by the Bangladesh Bank. The exposure measure generally follows the accounting value, adjusted as follows:

- On-balance sheet, non-derivative exposures are included in the exposure measure net of specific provision;
- Physical or financial collateral is not considered to reduce on-balance sheet exposure;
- Loans are not netted with deposits;
- Off balance sheet items are converted into credit exposure equivalents through the use of credit conversion factors (CCFs). Depending on the risk category of the exposure a CCF of 20%, 50% or 100% is applied. Commitments that are unconditionally cancellable at any time by the bank without prior notice, a CCF of 10% is applied;
- Item deducted from Tier I capital such as deferred tax assets is excluded.

Particulars	AS per BASEL-III
	2015
Leverage ratio	31.28%
On balance sheet exposure	12,242,376,559
Off balance sheet exposure	1,264,216,165
Total exposure	**13,506,592,724**

12. Remuneration:

Qualitative disclosures on 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 (hereinafter referred as HR&RC).

HBL is committed to provide 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
  - Basic Pay
  - Cash Allowances
  - 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.

Quantitative disclosures:

	Year 2015
Number of meetings held by the main body overseeing remuneration and remuneration paid to its member.	N/A
Number of employees received a variable remuneration award	32 employees (Based on 2014 performance)
Guaranteed bonus awarded during the financial year:	
Number of employee (as of 31st December 2015)	118
Total amount of guaranteed bonus	6,657,683
Number and total amount of Sign-on awards made during the financial year	N/A
Number and total amount of severance payments made.	N/A
Total amount of outstanding deferred remuneration paid out in the financial year	NA
Form of payment (cash, shares and share-linked instruments and other forms)	Cash
Total amount of deferred remuneration paid out.	N/A
Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and/or implicit adjustments.	N/A
Total amount of reductions during the financial year due to ex post explicit adjustments.	N/A
Total amount of reductions during the financial year due to ex post implicit adjustments.	N/A
Total amount of remuneration payment made in the financial year	Fixed: 163,829,913 Variable: 6,657,683 Form: Cash