

**HABIB BANK LIMITED
- SRI LANKA BRANCH**

**FINANCIAL STATEMENTS
31 DECEMBER 2019**



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Independent Auditor's Report

To the head office management of Habib Bank Limited - Sri Lanka Branch

Our opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Habib Bank Limited - Sri Lanka Branch ("the Branch") as at 31 December 2019, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

What we have audited

The financial statements of the Branch, which comprise:

- the statement of financial position as at 31 December 2019;
- the statement of profit or loss and other comprehensive income for the year ended 31 December 2019;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Branch in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics), and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics.

Other information

Management is responsible for the other information. The other information comprises the supplemental Basel III disclosures but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Branch's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Branch or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Branch's financial reporting process.



Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions,
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Branch's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Branch's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Branch to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

As required by section 163 (2) of the Companies Act, No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Branch.

31 March 2020
COLOMBO

PricewaterhouseCoopers
CHARTERED ACCOUNTANTS

HABIB BANK LIMITED - SRI LANKA BRANCH**Statement of financial position**

(all amounts in Sri Lanka Rupees)

		Year ended 31 December	
	Notes	2019	2018
Assets			
Cash and cash equivalents	4	1,594,367,294	2,223,464,095
Balances with Central Bank of Sri Lanka	5	77,238,084	70,797,200
Placements with financial institutions	6	1,001,397,263	1,126,898,395
Derivative financial instruments	7	5,544,550	-
Financial assets at amortised cost			
- Loans and advances to customers	8	2,892,644,160	3,515,347,971
- Debt and other instruments	9	2,704,807,560	1,047,576,671
Financial assets measured at fair value through other comprehensive income	10	217,866,768	580,000
Other assets	11	37,986,710	53,929,735
Income tax receivable		90,186,207	80,793,974
Property, plant and equipment	12	263,270,928	280,717,978
Right of Use (ROU) asset	13	22,890,149	-
Deferred tax assets	18	-	69,273,214
Total assets		8,908,207,673	8,469,379,233
Liabilities			
Due to banks	14	50,652,897	46,649,008
Financial liabilities at amortised cost -Due to customers	15	2,537,213,713	2,139,983,496
Other liabilities	16	66,069,300	63,652,186
Employee benefit liability	17	42,564,911	49,898,398
Deferred tax liabilities	18	12,417,060	-
Total liabilities		2,708,917,881	2,300,183,088
Equity			
Assigned capital	19	4,938,390,143	4,938,390,143
Statutory reserve fund	20	69,669,602	68,121,518
Revaluation reserve	21	204,911,724	204,911,724
Exchange equalisation of capital	22	91,107,948	296,882,890
Exchange equalisation of reserve	23	8,147,241	8,319,596
OCI reserve		17,197,758	-
Retained earnings	24	869,865,376	652,570,274
Total equity		6,199,289,792	6,169,196,145
Total liabilities and equity		8,908,207,673	8,469,379,233
Contingent liabilities and commitments	37.3.4.1	1,341,862,587	964,393,161

The management is responsible for the preparation and presentation of these financial statements.

Signed for and on behalf of the management by:

Wajid Ali Shah
Regional General Manager
Sri Lanka and Maldives

Fathima Zahara Mohamed
Head of Finance

The notes to the financial statements from pages 07 to 63 form an integral part of these financial statements.
31 March 2020
Colombo



HABIB BANK LIMITED - SRI LANKA BRANCH

Statement of profit or loss and other comprehensive income

(all amounts in Sri Lanka Rupees)

	Notes	Year ended 31 December 2019	2018
Interest income	25	704,962,729	467,516,704
Interest expense	26	(141,488,447)	(168,227,406)
Net interest income		563,474,282	299,289,298
Fees and commission income	27	1,211,181	2,940,279
Other operating income	28	18,510,129	(39,086,443)
Total operating income		583,195,592	263,143,134
Impairment charges and other losses	29	(35,044,716)	(73,491,166)
Net operating income		548,150,876	189,651,968
Personnel expenses	30	(228,650,381)	(227,559,497)
Depreciation of property plant and equipment and ROU assets	12.2/13	(43,512,368)	(38,930,494)
Other operating expenses	31	(84,208,358)	(111,247,018)
Total operating expenses		(356,371,107)	(377,737,008)
Operating profit before taxes and levies on financial services		191,779,769	(188,085,041)
Taxes and levies on financial services	32.1	(87,914,592)	(12,727,573)
Profit before income tax		103,865,177	(200,812,614)
Income tax expense	32.2	(72,903,496)	49,012,526
Profit for the year		30,961,681	(151,800,088)
Other comprehensive income			
Other comprehensive income to be reclassified to profit and loss in subsequent periods			
Net gain / (loss) on instruments at fair value through other comprehensive income		23,885,774	-
Tax expense relating to items that will be reclassified to profit or loss	32.2	(6,688,017)	-
Other comprehensive income not to be reclassified to profit and loss in subsequent periods			
Actuarial (loss) / gain on retirement benefit obligation	17	7,495,577	(7,169,649)
Exchange differences on translation of foreign currency capital	22	(23,290,252)	467,655,005
Exchange differences on translations of foreign currency reserves	23	(172,355)	(1,970,170)
Realisation exchange equalisation of capital	24	(182,484,690)	(727,835,081)
Tax expense relating to items that will not be reclassified to profit or loss	32.2	(2,098,762)	(15,729,998)
Other comprehensive income for the year net of tax		(183,352,724)	(285,049,893)
Total comprehensive income for the year		(152,391,043)	(436,849,981)

The notes to the financial statements from pages 07 to 63 form an integral part of these financial statements.

HABIB BANK LIMITED - SRI LANKA BRANCH**Statement of changes in equity**

(all amounts in Sri Lanka Rupees)

	Notes	Assigned capital	Statutory reserve fund	Revaluation reserve	Exchange equalisation of capital	Exchange equalisation of reserve	OCI Reserve	Retained earnings	Total
As at 31 December 2017		4,938,390,143	68,121,518	222,649,224	557,062,966	10,289,766	-	109,931,346	5,906,444,963
Changes on initial application of SLFRS 09		-	-	-	-	-	-	(39,213,775)	(39,213,775)
Deferred tax on transitional adjustments		-	-	-	-	-	-	10,979,857	10,979,857
Restated balance as at 01.01.2018		4,938,390,143	68,121,518	222,649,224	557,062,966	10,289,766	-	81,697,428	5,878,211,045
Profit for the year	24	-	-	-	-	-	-	(151,800,088)	(151,800,088)
Other comprehensive income	22/23/24	-	-	-	467,655,005	(1,970,170)	-	(7,169,649)	458,515,186
Deferred tax recognised in other comprehensive Income	21/24	-	-	(17,737,500)	-	-	-	2,007,502	(15,729,998)
Realisation of exchange equalisation reserve	22/24	-	-	-	(727,835,081)	-	-	727,835,081	-
As at 31 December 2018		4,938,390,143	68,121,518	204,911,724	296,882,890	8,319,596	-	652,570,274	6,169,196,145
Profit for the year	24	-	-	-	-	-	-	30,961,681	30,961,681
Other comprehensive income	22/23/24	-	-	-	(23,290,252)	(172,355)	23,885,774	7,495,577	7,918,744
Deferred tax recognised in other comprehensive income	21/24	-	-	-	-	-	(6,688,016)	(2,098,762)	(8,786,778)
Realisation of exchange equalisation reserve	22/24	-	-	-	(182,484,690)	-	-	182,484,690	-
Transfer to statutory reserve fund	20	-	1,548,084	-	-	-	-	(1,548,084)	-
As at 31 December 2019		4,938,390,143	69,669,602	204,911,724	91,107,948	8,147,241	17,197,758	869,865,376	6,199,289,792

The notes to the financial statements from pages 07 to 63 form an integral part of these financial statements.

HABIB BANK LIMITED - SRI LANKA BRANCH

Statement of cash flows

(all amounts in Sri Lanka Rupees)

		Year ended 31 December	
	Note	2019	2018
Cash flows from operating activities			
Net cash flow from operating activities before income tax	33.1	185,847,946	(84,658,553)
Operating profit before changes in operating assets and liabilities		185,847,946	(84,658,553)
(Increase) / decrease in operating assets	33.2	(1,189,021,063)	1,553,273,865
Increase / (decrease) in operating liabilities	33.3	404,843,938	(389,207,965)
Net cash flow (used in) / generated from operating activities		(598,329,179)	1,079,407,347
Cash flows from investing activities			
Purchase of property plant and equipment	12.5	(9,586,365)	(1,183,494)
Dividends received	28	2,139,250	1,801,700
Proceeds from sale of property plant and equipment		142,100	3,000,000
		(7,305,015)	3,618,206
Cash flow from financing activities			-
Exchange differences on translations of foreign currency capital and foreign currency reserves	22/23	(23,462,607)	465,684,836
Net increase / (decrease) in cash and cash equivalents		(629,096,801)	1,548,710,389
Cash and cash equivalents at the beginning of the year		2,223,464,095	674,753,706
Cash and cash equivalents at the end of the year		1,594,367,294	2,223,464,095

The notes to the financial statements from pages 07 to 63 form an integral part of these financial statements.

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements

(all amounts in Sri Lanka Rupees)

1 Corporate information

1.1 General

Habib Bank Limited – Sri Lanka Branch ("Bank") is a licensed commercial bank established under the Banking Act No. 30 of 1988. It is a foreign branch of Habib Bank Limited, which is incorporated in Pakistan. The registered office of the Bank is located at No.140-142, 2nd Cross Street, Colombo 11.

1.2 Principal activities and nature of operations

The principal activities of the Bank continued to be banking and related activities such as accepting deposits, corporate and retail banking, personal financial services, foreign currency operations, trade services, dealing in government securities and other related services.

1.3 Date of authorisation for issue

The Financial Statements of Habib Bank Limited – Sri Lanka Branch for the year ended 31 December 2019 were authorised for issue by the local management on 31 March 2020.

2 Summary of significant accounting policies

2.1 Basis of preparation

2.1.1 Statement of compliance

The financial statements of the Bank have been prepared in accordance with Sri Lanka Accounting Standards (commonly referred by the term "SLFRS") as issued by Institute of Chartered Accountants of Sri Lanka.

The preparation and presentation of these financial statements is in compliance with the requirements of the Companies Act No.07 of 2007.

The presentation of these financial statements is in compliance with the requirements of the Banking Act No. 30 of 1988.

2.1.2 Historical cost convention

The financial statements of the Bank have been prepared on a historical cost basis, except otherwise indicated including freehold land and building which have been subsequently revalued. Further financial assets measured at fair value through other comprehensive income has also been recorded in fair value.

The financial statements are presented in Sri Lankan Rupees, except when otherwise indicated.

2.1.3 Presentation of financial statements

The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 35 to the financial statements.

Each material class of similar items is presented separately in the financial Statements. Items of dissimilar nature or functions are presented separately, unless they are immaterial.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the Statement of Comprehensive Income unless required or permitted by any accounting standard or interpretation.

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.1 Basis of preparation (contd)

2.1.4 New standards and amendments – applicable 1 January 2019

The bank has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2019:

1. SLFRS 16 Leases
2. Prepayment Features with Negative Compensation – Amendments to SLFRS 9
3. Interpretation 23 Uncertainty over Income Tax Treatments

The bank had to change its accounting policies as a result of adopting SLFRS 16. The bank elected to adopt the new rules retrospectively but recognised the cumulative effect of initially applying the new standard on 1 January 2019 (The modified retrospective approach). This is disclosed in note 2.1.7. The other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(a) SLFRS 16 Leases

SLFRS 16 Leases will affect primarily the accounting by lessees and will result in the recognition of almost all leases on balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases.

The statement of profit or loss will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest and depreciation, so key metrics like EBITDA will change.

Operating cash flows will be higher as cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of the payments that reflects interest can continue to be presented as operating cash flows.

The accounting by lessors will not significantly change. Some differences may arise as a result of the new guidance on the definition of a lease. Under SLFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The standard is effective for the annual periods beginning on or after 1 January 2019.

(b) IFRIC Interpretation 23, "Uncertainty over income tax treatments"

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of LKAS 12. The interpretation does not apply to taxes or levies outside the scope of LKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available.

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.1 Basis of preparation (contd)

2.1.4 New standards and amendments – applicable 1 January 2019

(c) Amendments to SLFRS 9, "*Prepayment Features with Negative Compensation*"

Under SLFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to SLFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The basis for conclusions to the amendments clarified that the early termination can result from a contractual term or from an event outside the control of the parties to the contract, such as a change in law or regulation leading to the early termination of the contract.

The amendment is effective for annual reporting periods beginning on or after 1 January 2019.

2.1.5 New standards and amendments but not adopted in 2019

(a) Amendments to LKAS 1 and LKAS 8, "*Definition of Material*"

The amendments to LKAS 1 Presentation of Financial Statements and LKAS 8 Accounting Policies, Changes in Accounting Estimates and Errors which use a consistent definition of materiality throughout International Financial Reporting Standards and the Conceptual Framework for Financial Reporting, clarify when information is material and incorporate some of the guidance in LKAS 1 about immaterial information.

In particular, the amendments clarify:

- a) that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole, and
- b) the meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need

This amendment is effective for the annual periods beginning on or after 1 January 2020.

(b) Revised Conceptual Framework for Financial Reporting

The revised Conceptual Framework which will be used in standard-setting decisions with immediate effect. Key changes include:

- a) increasing the prominence of stewardship in the objective of financial reporting
- b) reinstating prudence as a component of neutrality
- c) defining a reporting entity, which may be a legal entity, or a portion of an entity
- d) revising the definitions of an asset and a liability
- e) removing the probability threshold for recognition and adding guidance on derecognition
- f) adding guidance on different measurement basis, and
- g) stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

No changes will be made to any of the current accounting standards. However, entities that rely on the Framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised Framework from 1 January 2020. These entities will need to consider whether their accounting policies are still appropriate under the revised Framework.

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.1 Basis of preparation (contd)

2.1.6 Rounding of amounts

All amounts disclosed in the financial statements and notes have been rounded off to the nearest thousand in Sri Lankan Rupees unless otherwise stated.

2.1.7 Changes in accounting policies

This note explains the impact of the adaptation of SLFRS 16 Leases on the Bank's financial statements

As indicated in note 2.1.4 above, the bank has adopted SLFRS 16 Leases retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. The new accounting policies are disclosed in note 2.3.18.

On adoption of SLFRS 16, the bank recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of LKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 11.81%.

(i) Practical expedients applied

In applying SLFRS 16 for the first time, the bank has used the following practical expedients permitted by the standard:

- * applying a single discount rate to a portfolio of leases with reasonably similar characteristics.
- * relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019.
- * excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- * using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The bank has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the bank relied on its assessment made applying LKAS 17 and Interpretation 4 Determining whether an Arrangement contains a Lease.

(ii) Measurement of lease liabilities

	2019
Operating lease commitments as at 31 December 2018 (Note 37.3.4.1)	27,141,744
Discounted using the lessee's incremental borrowing rate of at the date of initial application	24,680,630
Add: finance lease liabilities recognised as at 31 December 2018	-
(Less): short-term leases not recognised as a liability	-
(Less): low-value leases not recognised as a liability	-
Add / (less): contracts reassessed as lease contracts	-
Add / (less): adjustments as a result of a different treatment of extension and termination options	-
Add / (less): adjustments relating to changes in the index or rate affecting variable payments	-
Lease liability recognised as at 1 January 2019	24,680,630
Of which are:	
Current lease liabilities	14,614,149
Non-current lease liabilities	10,066,481
	24,680,630

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.1 Basis of preparation (contd)

2.1.7 Changes in accounting policies (contd)

(iii) Measurement of right-of-use assets

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018.

(iv) Adjustments recognised in the balance sheet on 1 January 2019

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- * property, plant and equipment – No change
- * right-of-use assets – increase by LKR 32,051,720
- * deferred tax assets – No change
- * prepayments – decrease by LKR 7,371,090
- * borrowings – No change
- * lease liabilities – increase by LKR 24,680,630

The net impact on retained earnings on 1 January 2019 was nil.

As explained in note 2.1.7 the bank elected not to restate comparative figures. The reclassifications and the adjustments arising from the new standard are therefore not reflected in the statement of financial position as at 31 December 2018, but are recognised in the opening statement of financial position as of 1 January 2019.

The following table show the adjustment recognised for each individual line item.

	Originally Presented as of 31 December 2018	SLFRS 16 Impact	Balance as of 1 January 2019
Assets			
Cash and cash equivalents	2,223,464,095	-	2,223,464,095
Balances with Central Bank of Sri Lanka	70,797,200	-	70,797,200
Placements with financial institutions	1,126,898,395	-	1,126,898,395
Financial assets measured at amortised cost :			
- Debt and other instruments	1,047,576,671	-	1,047,576,671
- Loans and advances to customers	3,515,347,971	-	3,515,347,971
Financial assets measured at fair value through other comprehensive income	580,000	-	580,000
Other assets	53,929,735	(7,371,090)	46,558,645
Income tax receivable	80,793,974	-	80,793,974
Property, plant and equipment	280,717,978	-	280,717,978
Deferred tax assets	69,273,214	-	69,273,214
ROU assets	-	32,051,720	32,051,720
	8,469,379,233	24,680,630	8,494,059,863
Liabilities			
Due to banks	46,649,008	-	46,649,008
Due to customers	2,139,983,496	-	2,139,983,496
Other liabilities	63,652,186	24,680,630	88,332,816
Employee benefit liability	49,898,398	-	49,898,398
	2,300,183,088	24,680,630	2,324,863,718
Equity			
Assigned capital	4,938,390,143	-	4,938,390,143
Reserves	1,230,806,002	-	1,230,806,002
	6,169,196,145	-	6,169,196,145

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.1 Basis of preparation (contd)

2.1.8 Comparative information

Comparative information including quantitative, narrative and descriptive information is disclosed in respect of the previous period in the financial statements in order to enhance the understanding of the current period's financial statements and to enhance the inter-period comparability. The presentation and classification of the financial statements in the previous year are classified, where relevant or better presentation and to be comparable with those of the current year.

The bank has not restated the comparative information of previous financial year for Leasehold improvements within the scope of Sri Lanka Accounting Standards - SLFRS 16 on Leases. Therefore the comparative information for 2018 is reported under LKAS 17 on Leases, and is not comparable to the information presented for 2019. Differences arising from adoption of SLFRS 16 have been recognised directly in equity as of 1 January 2019 and are disclosed in note 2.1.7.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current year or future reporting periods and on foreseeable future transactions.

SLFRS 16 replaces the provision of LKAS 17 that relate to the recognition, measurement, presentation and disclosure of leases. The adaptation of SLFRS 16 leases from 01 January 2019 resulted in changes in accounting policies and adjustments to the amounts recognised in financial statements.

2.2 Significant accounting judgements, estimates and assumptions

In the process of applying the Bank's accounting policies, management has exercised judgement and estimates in determining the amounts recognised in the financial statements. Use of available information, estimates and assumptions and application of judgement is inherent in the preparation of financial statements as they affect the application of accounting policies and the recorded amounts in the financial statements. The Bank believes its estimates including the valuation of assets and liabilities as appropriate. Estimates of underlying assumptions are reviewed on a continuous basis. However the actual results may differ from those estimates. The most significant uses of judgements and estimates are as follows:

2.2.1 Impairment losses on loans and advances

The Bank reviews its individually significant loans and advances at each financial reporting date to assess whether an impairment loss should be recorded in the statement of comprehensive income. In particular, management's judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found to be not impaired and all individually insignificant loans and advances are assessed collectively.

Impairment is calculated as per "Expected Credit Loss (ECL)" calculation, which is an output of complex models with a number of underlying assumptions regarding choice of variable inputs and their interdependencies. Considered accounting judgements and estimates used in ECL include:

* Company's criteria for qualitatively assessing whether there has been a significant increase in credit risk and if so allowances for financial assets measured on a Life time expected credit loss(LTECL) basis;

* The segmentation of financial assets when their ECL is assessed on a collective basis;

* Development of ECL models; including the various statistical formulas and the choice of inputs;

* Determination of associations between macro - economic inputs such as GDP Growth and the effect on Probability of Default(PDs), Exposure at Default (EAD) and Loss Given Default (LGD);

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.2 Significant accounting judgements, estimates and assumptions (contd)

2.2.1 Impairment losses on loans and advances (contd)

The impairment loss on loans and advances is disclosed in more detail in Note 2.3.8 and Note 8 to the financial statements.

2.2.2 Write-off

Financial assets (and related impairment allowances) are normally written-off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

2.2.3 Renegotiation

Loans are identified as renegotiated and classified as credit impaired when we modify the contractual payment terms due to significant credit distress of the borrower. Renegotiated loans remain classified as credit impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows and retain the designation of renegotiated until maturity or derecognition. For retail, renegotiated loans are kept at stage 3 until full settlement.

Loan modifications that are not identified as renegotiated are considered to be commercial restructuring.

2.2.4 Estimation uncertainties and judgements made in relation to lease accounting

The estimation uncertainties and judgements made in relation to lease accounting is disclosed in more detail in Note 2.1.7 and Note 13 to the financial statements.

2.2.5 Employee benefit liability - gratuity

The cost of the defined benefit plan – gratuity is determined using an actuarial valuation. Actuarial valuation involves making assumptions about discount rates, future salary increases, remaining working life of employees and mortality rates. Due to the long term nature of these obligations, such estimates are subject to significant uncertainty. The details of the employee benefit liability are disclosed in Note 17 to the financial statements.

2.2.6 Fair value of property plant and equipment

The freehold land and buildings of the Bank are reflected at revalued amounts. The Bank engaged independent valuation specialist to determine the fair value of such properties. When current market prices of similar assets are available, such evidence has been considered in estimating the fair value of these assets. Refer Note 12 to the financial statements.

2.2.7 Fair value of financial instruments

Where the fair values of financial assets and financial liabilities disclosed in the financial statements cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgment is required to establish fair values. The judgments include considerations of liquidity and inputs such as discount rates. The valuation of financial instruments is described in more detail in Note 36.

2.2.8 Income tax and other taxes

The Branch is subject to income tax and other tax such as Value Added Tax, National Building Tax and Debt Repayment Levy specifically levied on the Banking and financial sector. The calculations are based on the provisions enacted as per the relevant Acts and guidelines published by Inland Revenue Department. The Branch recognises liabilities for any pending tax matters with the tax authorities based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax assets and liabilities in the period in which such determination is made.

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.2 Significant accounting judgements, estimates and assumptions (contd)

2.2.8 Income tax and other taxes (contd)

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profits will be available against which such tax losses can be set off. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits. The details of the deferred tax asset are described in more detail in Note 2.3.17 and Note 18 to the financial statements.

2.3 Summary of significant accounting policies

2.3.1 Functional and presentation currency

The Bank's local operations comprise of the Domestic Banking Unit (DBU) and the Foreign Currency Banking Unit (FCBU).

These financial statements of Habib Bank Limited – Sri Lanka Branch ("Bank") have been prepared by amalgamating the results of the Domestic Banking Unit (DBU) and the Foreign Currency Banking Unit (FCBU) operations and the financial position of the both units. Each unit determines its own functional currency. Accordingly the functional currency of the Domestic Banking Unit is Sri Lankan Rupees and the Foreign Currency Banking Unit is United States Dollars. The presentation currency for both units is Sri Lankan Rupee.

Transactions and balances

Transactions in foreign currencies are initially recorded at the rate of exchange prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange at the reporting date. All differences arising are taken in to statement of comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rates as at the dates of recognition.

Accordingly, the results and financial position of Foreign Currency Banking Unit (FCBU) are translated to Sri Lankan Rupees as follows:

The assets, liabilities and assigned capital of Foreign Currency Banking Unit operations are translated to Sri Lankan Rupees at spot exchange rates at the reporting date. The income and expenses of the Foreign Currency Banking Unit operations are translated at monthly average rates.

Foreign currency differences arising on the translation of FCBU operations to presentation currency are recognised in other comprehensive income.

2.3.2 Fair value measurement

Fair value related disclosures for assets measured at fair value or financial instruments that are not measured at fair value, for which fair values are disclosed, are summarised in Note 36 to the financial statements.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the Financial Statements are categorised within the fair value hierarchy, as described below:

- Level 1 Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.3 Summary of significant accounting policies (contd)

2.3.2 Fair value measurement (contd)

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The management determines the policies and procedures for both recurring and non- recurring fair value measurements.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

2.3.3 Cash and cash equivalents

Cash and cash equivalents includes notes and coins on hand, unrestricted balances held with central banks (the Monetary Law Act requires that all commercial banks operating in Sri Lanka to maintain a reserve against all deposit liabilities denominated in Sri Lankan Rupees. The reserve should be maintained for an amount equal to 5.0% of the total of such rupee deposit liabilities), and highly liquid financial assets with original maturities of three months or less from the date of the acquisition that are subject to and insignificant risk of changes in their fair value, and are used by the bank in the management of its short term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

2.3.4 Placements with financial institutions

Placements with financial institutions includes short term placements made with banks and other financial institutions and these are carried at amortised cost in the statement of financial position.

2.3.5 Assigned capital

Assigned capital of the bank represent the capital contributions made to the Branch by the Head office. The increase in equity on the receipt of capital contributions is normally recorded as the residual after recording the recognition or de-recognition of assets or liabilities arising on the share issue (the proceeds of issue) and after deducting directly attributable transaction costs.

Distributions to holders of equity, which include profits transferred to head office are debited directly to equity at the date of payment.

2.3.6 Statutory reserve fund

Five per centum of profits after tax is transferred to the statutory reserve fund as required by section 20(1) of the Banking Act No 30 of 1988. This reserve fund will be used only for the purposes specified in Section 20 (2) of the Banking Act No 30 of 1988. Transfers made during the year from Retained earnings to Statutory Reserve Fund is LKR 1,548,084 (Note 20).

2.3.7 Financial instruments – initial recognition and subsequent measurement

(i) Date of recognition

All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument. This includes 'regular way trades': purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.3 Summary of significant accounting policies (contd)

2.3.7 Financial instruments – initial recognition and subsequent measurement (contd)

(ii) Initial measurement and subsequent measurement of financial instruments

The classification of financial instruments at initial recognition depends on their cash flow characteristics and business model for managing those instruments. Financial instruments are measured at either;

- Amortised cost
- Fair value through other comprehensive income (FVOCI)
- Fair value through profit or loss (FVTPL)

The bank holds the following financial instruments:

Financial assets	Category	Carrying Value as of 31.12.2019	Carrying Value as of 31.12.2018
Cash and cash equivalents	Amortised cost	1,594,367,294	2,223,464,095
Balances with Central Bank of Sri Lanka	Amortised cost	77,238,084	70,797,200
Placement with financial institution	Amortised cost	1,001,397,263	1,126,898,395
Other financial assets	Amortised cost	640,531,431	857,603,984
Loans and advances to customers	Amortised cost	2,892,644,160	3,515,347,971
Investment in government securities	Amortised cost	2,064,276,129	189,972,687
Investment in unquoted shares	FVOCI	217,866,768	580,000
Financial liabilities			
Due to banks	Amortised cost	50,652,897	46,649,008
Due to customers	Amortised cost	2,537,213,713	2,139,983,496

(a) Financial assets measured at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL.

- The asset is held within a business model whose objective is to hold asset to collect contractual cash flows; and
- The contractual terms of the financial asset gives rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains / (losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

(b) Financial assets measured at FVOCI

A financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset gives rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at FVOCI include debt and equity instruments measured at fair value through other comprehensive income.

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.3 Summary of significant accounting policies (contd)

2.3.7 Financial instruments – Initial recognition and subsequent measurement (contd)

Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses, which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains / (losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains / (losses), and impairment expenses are presented as separate line item in the statement of profit or loss.

(c) Financial assets measured at FVTPL

All financial assets other than those classified at amortised cost or FVOCI are classified as measured at FVTPL. Financial assets at fair value through profit or loss include financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis as they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets and financial assets designated upon initial recognition at fair value through profit or loss.

A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains / (losses) in the period in which it arises.

(d) Financial liabilities - Subsequent measurement

Bank's financial liabilities include due to customers, due to banks, borrowings and other financial liabilities.

The subsequent measurement of financial liabilities depends on their classification as follows:

Due to customers / banks

Due Customers / banks include deposits and are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the Income Statement through the effective interest rate method (EIR) amortisation process.

Borrowings / other financial liabilities

After initial measurement, borrowings and other financial liabilities are subsequently measured at amortised cost using EIR. Amortised cost is calculated by taking in to account any discount or premium on the issue and costs that are an integral part of the EIR.

2.3.8 Impairment of financial assets

The Bank assess on a forward-looking basis the expected credit losses (ECL) associated with financial assets measured at amortised cost or FVOCI which mainly include loans & advances and financings, investments (other than equity investments), interbank placements, loan commitments and financial guarantees. The Bank recognises a loss allowance and provisions for such losses at reporting date. The measurement of ECL reflects:

- An unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Bank's approach leveraged the existing regulatory capital models and processes for Bank's loan portfolios that use the existing Internal Rating based and behavioral credit models. ECL is calculated by multiplying the Probability of default (PD), Loss Given Default (LGD) and Exposure at Default (EAD).

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.3 Summary of significant accounting policies (contd)

2.3.8 Impairment of financial assets (contd)

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which are measured as 12-month ECL:

- Instruments that are determined to have low credit risk at the reporting date; and
- Other financial instruments on which credit risk has not increased significantly since their initial recognition.

SLFRS 9 outlines a "three-stage" model for impairment based on changes in credit quality since initial recognition.

* Stage 1 – A financial asset that is not originally credit-impaired on initial recognition is classified in Stage 1. Financial instruments in Stage 1 have their ECL measured at an amount equal to the proportion of lifetime expected credit losses (LTECL) that result from default events possible within next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.

* Stage 2 – When a financial instrument experiences a SICR subsequent to origination but is not considered to be in default, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument.

* Stage 3 – Financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

For financial assets in Stage 1 and Stage 2, the Bank calculates interest income by applying the Effective Interest Rate (EIR) to the gross carrying amount (i.e., without deduction for ECLs). Interest income for financial assets in Stage 3 is suspended and included in loan impairment.

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default (PD) - An estimate of the likelihood of default over a given time horizon.
- Loss given default (LGD) - An estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.
- Exposure at Default (EAD) - An estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date.

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information.

2.3.9 De-recognition of financial assets and financial liabilities

(i) Financial assets

A financial asset is derecognised when:

- The rights to receive cash flows from the asset have expired; or
- The Bank has transferred substantially all the risks and rewards of the asset

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.3 Summary of significant accounting policies (contd)

2.3.9 De-recognition of financial assets and financial liabilities (contd)

(ii) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

2.3.10 Derivative financial instruments

Derivatives are only used for economic hedging purposes and not as speculative investments. However, where derivatives do not meet the hedge accounting criteria, they are classified as 'held for trading' for accounting purposes and are accounted for at fair value through profit or loss. They are presented as current assets or liabilities to the extent they are expected to be settled within 12 months after the end of the reporting period.

2.3.11 Reverse repurchase agreements

Securities purchased under agreements to resell at a specified future date are not recognised in the statement of financial position. The consideration paid, including accrued interest, is recorded in the statement of financial position, within 'Reverse Repurchase Agreements', reflecting the transaction's economic substance as a loan by the Bank. The difference between the purchase and resale prices is recorded in 'Interest Income' and is accrued over the life of the agreement using the effective interest rate.

2.3.12 Property plant and equipment

Property, plant and equipment except for land and buildings is stated at cost excluding cost of day to day servicing, less accumulated depreciation and accumulated impairment value, if any. The Bank reviews its assets residual values, useful lives and method of depreciation at each reporting date. Judgement by the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

Land and buildings are measured at fair value, less accumulated depreciation on buildings, and impairment losses recognised at the date of revaluation. Valuations are performed with sufficient frequency to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

A revaluation surplus is recognised in other comprehensive income and credited to the asset revaluation reserve in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in the income statement, in which case the increase is recognised in the income statement. A revaluation deficit is recognised in profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve. Refer Note 12 and 21 to the financial statements for revaluation of land and buildings.

Depreciation is calculated using the straight line method to write down the cost of property, plant and equipment to their residual values over their estimated useful lives from the time asset is placed in use. Land are not depreciated. Management has re-assessed the useful life of the assets during the period and changed the useful life of assets with effect from 01.01.2018. The estimated useful lives are as follows,

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

2.3 Summary of significant accounting policies (contd)

2.3.12 Property plant and equipment (contd)

	Prior to 31.12.2017	After 31.12.2017
Freehold buildings	20 Years	20 Years
Leasehold buildings	Over the period of lease	Over the period of lease
Motor vehicles	5 Years	5 Years
Furniture, fixtures and fittings	5 Years	5 Years except for
Computer equipment	5 Years	once specifically
ATMs	5 Years	7 Years
Software - Customised	5 Years	10 Years
Steel Furniture	5 Years	10 Years
PABX	5 Years	10 Years

Property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the assets (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in "Other operating income" or "Other operating expense" as appropriate in the Statement of comprehensive income in the year the asset is derecognised.

2.3.13 Impairment of non-financial assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered to be impaired and is written down to its recoverable amount.

2.3.14 Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letter of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements (with in "Other Liabilities") at fair value, being the premium received. Subsequent to the initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the best estimate of expenditure required to settle any financial obligation arising as a result of guarantee.

Any increase in the liability relating to financial guarantee is recorded in the income statement in "Impairment Charge". The premium received is recognised in the income statement in "Fees and Commission Income" on a straight line basis over the life of the guarantee.

2.3.15 Employee benefit liability

(a) Defined benefit plan - gratuity

The Bank measures the present value of the promised retirement benefits of gratuity which is a defined benefit plan using the actuarial valuation method. The actuarial valuation involves making assumptions about discount rate, future salary increase rate and mortality rates etc. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date. Accordingly the employee benefit liability is based on the actuarial valuation as at 31 December 2018 carried out by Messrs. Actuarial and Management Consultants (Private) Limited, actuaries. Refer Note 17 to the financial statements for details on Gratuity.

The gratuity liability is not externally funded.

(b) Defined contribution plans - Employees' provident fund and employees' trust fund

Employees are eligible for Employees' provident fund contributions and Employees' trust fund contributions in line with the respective statutes and regulations. The Bank contributes 12% of gross emoluments of employees to an approved private provident fund and 3% to the Employees' Trust Fund respectively whilst the employees contribute 8% of their gross salary to the Employees' provident fund.

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.3 Summary of significant accounting policies (contd)

2.3.16 Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expenses relating to any provision net of any reimbursement is presented in the Statement of comprehensive income.

2.3.17 Taxes

Current income tax

Current income tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date.

Income tax on profits from Domestic Banking Unit and Foreign Currency Banking Unit is calculated at the rate of 28%.

Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Value Added Tax (VAT) on financial services

During the year, Bank's total 'value addition' was subjected to 15% VAT on financial services as per Section 25A of the Value Added Tax Act No. 14 of 2002 and amendments there to. (2015- 11%).

Nation Building Tax on value addition on financial services

According to the Nation Building Tax Act, No. 09 of 2009 and subsequent amendments thereto, importers, Manufacturers, service providers and traders are liable to pay Nation Building Tax on the liable turnover for every quarter at the rate of 2%. The business of Banking or Finance was exempted from Nation Building Tax up to 31 December 2013 and the exemption was removed with effect from 01.01.2014.

Accordingly from 01.01.2014 Bank was subjected to Nation Building Tax which is payable at 2% of Bank's total 'value addition'.

Debt Repayment Levy

During the year, Bank was subjected to Debt Repayment Levy which is payable at 7% on the value addition calculated for VAT on Financial Services purposes and payable to the Commissioner General of Inland Revenue on monthly basis with effective from 01 October 2018 (as per the Finance Act, No. 35 of 2018).

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.3 Summary of significant accounting policies (contd)

2.3.18 Leases

As explained in note 2.1.4 above, the bank has changed its accounting policy for leases where the bank is the lessee. The new policy is described in note 13 and the impact of the change in note 2.1.7.

Until 31 December 2018, leases of property, plant and equipment where the Bank, as lessee, had substantially all the risks and rewards of ownership were classified as finance leases. Finance leases were capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, were included in other short-term and long-term payables. Each lease payment was allocated between the liability and finance cost. The finance cost was charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases was depreciated over the asset's useful life, or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Bank will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership were not transferred to the Bank as lessee were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

2.3.19 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

a) Interest income and expenses

For all financial instruments interest income or expense is recorded using Effective Interest Rate (EIR). EIR is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. The calculation takes in to account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Interest Income' for financial assets and 'Interest Expense' for financial liabilities.

b) Fee and commission income

The Bank earns fees and commissions from a diverse range of services it provides to customers. Fee income can be divided to following categories,

(i) Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contract with customers, including significant payment terms, and the related revenue recognition policies.

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.3 Summary of significant accounting policies (contd)

2.3.19 Revenue recognition (contd)

b) Fee and commission income (contd)

(i) Fee income earned from services that are provided over a certain period of time (contd)

Types of Services	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under SLFRS 15 (Applicable from 1st January 2018)
Retail and Corporate Banking Services	The bank provides banking services to retail and corporate customers, including account management, provision of overdraft facilities, foreign currency transactions and servicing fees	Revenue from account service and serving fees is recognised overtime as the services are provided
	Fees for ongoing account management are charged to the customers account on a monthly basis. The bank sets the rates separately for Retail and Corporate Banking customers in each jurisdiction on an annual basis.	
	Transaction based fees for interchange, foreign currency transactions and overdrafts are charged to the customers accounts when the transaction takes place.	Revenue related to transactions is recognised at the point in time when the transaction takes place
	Servicing fees are charged on a monthly basis and are based on fixed rates reviewed annually by the bank.	

(ii) Fee income from providing transaction services

Fees arising from providing transaction services including account service fees is recognised as the related services are performed.

c) Net trading income

Net trading income comprise of results arising from trading activities including gains and losses on foreign exchange forward contracts.

d) Dividend income

Dividend income is recognised when the Bank's right to receive the payment is established.

e) Other income

Other income is recognised on an accrual basis.

f) Other expenses

All other expenses have been recognised in the financial statements as they are incurred in the period to which they relate. All expenditure incurred in the operation of the business and in maintaining capital assets in a state of efficiency has been charged to revenue in arriving at the Bank's profit for the year.

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.3 Summary of significant accounting policies (contd)

2.3.20 Contingent liabilities and commitments

To meet the financial needs of customers, the Bank enters into various commitments and contingent liabilities. Even though these obligations may not be recognised on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Bank.

Financial guarantees and undrawn facilities

The maximum exposure to credit risk relating to a financial guarantee is the maximum amount the Bank would have to pay if the guarantee is called upon. Undrawn commitments mainly consist of unutilised credit facilities granted to customers where the Bank reserves the right to unconditionally cancel or recall the facility at its discretion.

2.3.21 Cash flow statement

The cash flow statement has been prepared by using the "Indirect Method" in accordance with LKAS 7 on statement of cash flows, whereby profit or loss is adjusted for the effects of translations of a non cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows. Cash and cash equivalents mainly comprise of cash balances, placements, highly liquid investments of which original maturity of 3 months or less and net of any amount due from banks.

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

3 Analysis of financial instruments by measurement basis

	2019	2018
Assets		
Financial assets at amortised cost		
Cash and cash equivalents	1,594,367,294	2,223,464,095
Balances with Central Bank of Sri Lanka	77,238,084	70,797,200
Placement with financial institution	1,001,397,263	1,126,898,395
Other financial assets	640,531,431	857,603,984
Loans and advances to customers	2,892,644,160	3,515,347,971
Investment in government securities	2,064,276,129	189,972,687
Total financial amortised cost at amortised cost	8,270,454,361	7,984,084,332
Financial assets measured at fair value through OCI		
Financial assets measured at fair value through other comprehensive income	217,866,768	580,000
Total financial assets measured at Fair Value through OCI	217,866,768	580,000
	2019	2018
Liabilities		
Financial liabilities at amortised cost		
Due to banks	50,652,897	46,649,008
Due to customers	2,537,213,713	2,139,983,496
Total financial liabilities	2,587,866,610	2,186,632,504

4 Cash and cash equivalents

	2019	2018
Cash in Hand - Local currency	60,132,670	69,798,855
Cash in Hand - Foreign currency (United States Dollar)	363,813	1,661,286
Balances with banks	195,870,811	105,554,284
Money at call and short notice	1,338,000,000	2,046,449,670
	1,594,367,294	2,223,464,095

Money at call and short notice includes Standing Deposit Facility with CBSL which was funded by excess liquidity generated from USD capital conversion to LKR amount of LKR 1,338,000,000 (2,046,449,670 - 2018).

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

5 Balances with central bank of Sri Lanka

	2019	2018
Statutory Deposit with Central Bank of Sri Lanka [Note 5.1]	-	-
Money held at Central Bank of Sri Lanka in United States Dollars [Note 5.2]	-	-
Money held at Central Bank of Sri Lanka in Sri Lanka Rupees [Note 5.2]	77,238,084	70,797,200
	77,238,084	70,797,200

5.1 As required by the provisions of section 93 of the Monetary Law Act, a cash balance is required to be maintained with the Central Bank of Sri Lanka. As at 31 December 2018, the minimum cash reserve requirement was 6 % (2017 -7.5%) of the rupee deposit liabilities of Domestic Banking Unit. There is no reserve requirement for foreign currency deposit liabilities in Domestic Banking Unit and the deposit liabilities in Foreign Currency Banking Unit.

5.2 As required by circular dated 29 July 2005 "Request to Maintain Capital in Foreign Currency" of the Central Bank of Sri Lanka the Bank can maintain capital in foreign currency up to maximum of 50% of the new capital brought in, provided 25% of such foreign currency capital to be retained at Reserve Fund of Central Bank of Sri Lanka and balance 25% of such reserve funds to be used for lending to BOI companies. Accordingly this balance represents the 25% held at Central Bank of Sri Lanka. HBLSL has obtained a special approval to convert USD capital in Foreign Currency Banking Unit. Thus Money held at Central Bank of Sri Lanka in United States Dollars was fully converted to LKR during the year 2018.

6 Placements with financial institutions

	2019	2018
Other placements with financial institutions	1,001,397,263	1,126,898,395
	1,001,397,263	1,126,898,395

The balance as at 31 December 2019 represents placements with Sampath Bank amounting to Rs. 400 Mn, Union Bank amounting to Rs. 500 Mn and HNB amounting to Rs.100 Mn, along with interest receivable.

The balance as at 31 December 2018 represents placements with NDB Bank amounting to Rs. 624.85 Mn, Nations Trust Bank amounting to Rs. 250 Mn and Union Bank amounting to Rs. 250 Mn, along with interest receivable.

7 Derivative financial instruments

The Bank has the following derivative financial instruments in the following line item in the balance sheet.

	2019	2018
Foreign currency forwards contracts	5,544,550	-
	5,544,550	-

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

8 Financial assets at amortised cost - loans and advances

	2019	2018
Gross loans and advances	3,147,498,252	3,729,267,397
Stage 1	977,604,540	967,256,260
Stage 2	1,665,298,966	1,893,837,688
Stage 3	504,594,746	868,173,449
Less ; Accumulated impairmentnet	(254,854,092)	(213,919,426)
Stage 1	(1,440,352)	(998,994)
Stage 2	(49,059,218)	(46,928,080)
Stage 3	(204,354,522)	(165,992,352)
Net loans and advances	2,892,644,160	3,515,347,971

8.1 Net loans and advances by product

	2019	2018
Term loans	1,818,469,419	2,081,115,145
Overdraft	967,268,963	1,213,547,544
Consumer loans	-	-
Short term loans	65,741,460	9,339,322
Trade finance loans	232,693,673	369,693,674
	<u>3,084,173,515</u>	<u>3,673,695,685</u>
Allowance for impairment losses [Note 10.3]	<u>(254,854,092)</u>	<u>(213,919,426)</u>
	<u>2,829,319,423</u>	<u>3,459,776,259</u>
Staff loans	89,283,283	67,600,200
Less : Allowance for day 1 difference	<u>(25,958,546)</u>	<u>(12,028,488)</u>
	<u>63,324,737</u>	<u>55,571,712</u>
	2,892,644,160	3,515,347,971

8.2 Net loans and advances by currency

	2019	2018
Local currency - Sri Lankan Rupees	2,437,329,194	2,437,329,194
Foreign currency	<u>455,314,966</u>	<u>1,078,018,777</u>
	2,892,644,160	3,515,347,971

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

8 Financial assets at amortised cost - loans and advances (contd)

8.3 Impairment allowance for loans and advances to customers

	Stage 1	Stage 2	Stage 3
Opening balance as at 01.01.2019	998,994	46,928,079	165,992,352
Charge / (write back) to income statement	441,358	2,201,567	38,727,189
Write off during the year	-	-	(2,836,674)
Foreign exchange (gains)/ losses	-	(70,428)	2,471,655
Closing balance as at 31.12.2019	1,440,352	49,059,218	204,354,522

	Stage 1	Stage 2	Stage 3
Opening balance as at 01.01.2018	3,154,692	46,633,707	105,516,067
Charge / (write back) to income statement	(2,155,698)	(627,351)	69,838,349
Write off during the year	-	-	(10,909,389)
Foreign exchange (gains)/ losses	-	921,723	1,547,325
Closing balance as at 31.12.2018	998,994	46,928,079	165,992,352

9 Financial assets at amortised cost - debt and other instruments

	2019	2018
Investment in government securities [Note 9.1]	2,064,276,129	189,972,687
Investment in other securities [Note 9.2]	647,315,755	858,550,909
Less : Provision for impairment [Note 9.3]	(6,784,324)	(946,925)
	2,704,807,560	1,047,576,671

9.1 Financial assets at amortised cost - debt and other instruments Investment in government securities

	2019	2018
Government treasury bills	-	189,972,687
Government treasury bonds	2,064,276,129	-
	2,064,276,129	189,972,687

9.2 Financial assets at amortised cost - Debt and other instruments Investment in other securities

	2019	2018
Trust certificates [Note 9.2.1]	647,315,755	858,550,909
	647,315,755	858,550,909

9.2.1 Trust certificates

The above balance represents investment in trust certificates of Peoples Leasing Company PLC amounting to Rs. 858.5 Mn, which mature in year 2020 (Rs. 645.7 Mn) and 2021 (Rs. 212.8 Mn). [(2018 - trust certificates of Peoples Leasing Company PLC amounting to Rs. 858.5 Mn, which mature in year 2019 (Rs. 645.7 Mn) and 2020 (Rs. 212.8 Mn)].

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

9 Financial assets at amortised cost (contd)

9.3 Movement in impairment during the year - financial assets at amortised cost - debt and other instruments

	2019	2018
Stage 1		
Opening balance	946,925	394,841
Charge / (write back) to income statement	5,837,399	552,084
Closing balance	6,784,324	946,925
Stage 2		
Opening balance	-	-
Charge / (write back) to income statement		
Closing balance	-	-
Stage 3		
Opening balance	-	-
Charge / (write back) to income statement	-	-
Closing balance	-	-
	6,784,324	946,925

10 Financial assets measured at fair value through other comprehensive income

	2019	2018
Investment in government securities - treasury bills	194,528,823	-
Unquoted investments		
- Lanka Clear (Private) Limited (50,000 ordinary shares of Rs. 10/- each)	7,508,388	500,000
- Credit Information Bureau of Sri Lanka (800 ordinary shares of Rs. 100/- each)	15,829,557	80,000
	217,866,768	580,000

Management's valuation of investments in unquoted share investment amounts to Rs. 23,337,945/- and has been determined on basis of relative net asset portion to the percentage of ownership owned by the bank.

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

11. Other assets

	2019	2018
Deposits and prepayments	3,305,359	2,003,452
Prepaid staff cost	25,958,546	12,028,488
Other assets*	8,722,805	39,897,795
	37,986,710	53,929,735

* Inward and Outward net cheque clearing balance to be settled by the Lanka Clear (Private) Limited amounting to Rs 7,722,602/- (2018- Rs. 27,580,527/-) is included in the other assets balance as at 31 December 2019.

12. Property, plant and equipment

12.1 Gross carrying amounts

	Balance As at 01.01.2019	Additions	Disposals/ transfers and write-offs	Balance As at 31.12.2019
At cost / revaluation				
Freehold land	183,375,000	-	-	183,375,000
Freehold building	56,330,477	5,224,151	-	61,554,628
Motor vehicles	23,250,000	-	-	23,250,000
Computer, furniture and fittings	162,946,852	4,362,214	(3,092,672)	164,216,394
	<u>425,902,329</u>	<u>9,586,365</u>	<u>(3,092,672)</u>	<u>432,396,022</u>
Leasehold building improvements	44,787,993	-	-	44,787,993
	<u>44,787,993</u>	<u>-</u>	<u>-</u>	<u>44,787,993</u>
Total gross carrying amount	470,690,322	9,586,365	(3,092,672)	477,184,015
	Balance As at 01.01.2018	Additions	Disposals/ Transfers and Write-offs	Balance As at 31.12.2018
At cost / revaluation				
Freehold land	183,375,000	-	-	183,375,000
Freehold building	56,330,477	-	-	56,330,477
Motor vehicles	23,250,000	-	-	23,250,000
Computer, furniture and fittings	185,039,697	1,183,494	(23,276,339)	162,946,852
	<u>447,995,174</u>	<u>1,183,494</u>	<u>(23,276,339)</u>	<u>425,902,329</u>
Leasehold building improvements	45,968,456	-	(1,180,463)	44,787,993
	<u>45,968,456</u>	<u>-</u>	<u>(1,180,463)</u>	<u>44,787,993</u>
Total gross carrying amount	493,963,630	1,183,494	(24,456,802)	470,690,322

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

12. Property, plant and equipment (contd)

12.2 Accumulated depreciation

	Balance As at 01.01.2019	Charge for the year	Disposals/ transfers and write-offs	Balance as at 31.12.2019
At cost / revaluation				
Freehold building	4,090,720	3,751,059	-	7,841,779
Motor vehicles	23,025,000	225,000	-	23,250,000
Computer, furniture and fittings	126,382,215	18,169,071	(2,973,255)	141,578,031
	<u>153,497,935</u>	<u>22,145,130</u>	<u>(2,973,255)</u>	<u>172,669,810</u>
Leasehold building improvements	<u>36,474,409</u>	<u>4,760,868</u>	<u>-</u>	<u>41,235,277</u>
	<u>36,474,409</u>	<u>4,760,868</u>	<u>-</u>	<u>41,235,277</u>
Total accumulated depreciation	<u>189,972,344</u>	<u>26,905,998</u>	<u>(2,973,255)</u>	<u>213,905,087</u>
	Balance as at 01.01.2018	Charge for the year	Disposals/ transfers and write-offs	Balance as at 31.12.2018
At cost / revaluation				
Freehold building	822,644	3,268,076	-	4,090,720
Motor vehicles	21,400,000	1,625,000	-	23,025,000
Computer, furniture and fittings	121,168,744	27,873,047	(22,659,576)	126,382,215
	<u>143,391,388</u>	<u>32,766,123</u>	<u>(22,659,576)</u>	<u>153,497,935</u>
Leasehold building improvements	<u>31,451,153</u>	<u>6,164,371</u>	<u>(1,141,115)</u>	<u>36,474,409</u>
	<u>31,451,153</u>	<u>6,164,371</u>	<u>(1,141,115)</u>	<u>36,474,409</u>
Total accumulated depreciation	<u>174,842,541</u>	<u>38,930,494</u>	<u>(23,800,691)</u>	<u>189,972,344</u>

12.3 Net book values

	2019 Rs.	2018 Rs.
At cost / revaluation		
Freehold land	183,375,000	183,375,000
Freehold building	53,712,849	52,239,757
Motor vehicles	-	225,000
Computer, furniture and fittings	<u>22,638,363</u>	<u>36,564,637</u>
	<u>259,726,212</u>	<u>272,404,394</u>
Leasehold building improvements	<u>3,552,716</u>	<u>8,313,584</u>
Total carrying amount of property, plant and equipment	<u>263,278,928</u>	<u>280,717,978</u>

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

12 Property, plant and equipment (contd)

12.4 Revaluation of land and buildings

The revalued land and buildings consist of office properties situated at No 140-142, Second Cross Street, Colombo 11. Management determined that these constitute one class of asset under SLFRS 13, based on the nature, characteristics and risks of the property.

Fair value of the properties was determined using the market comparable method at a market price of Rs.239,600,000/-. The valuation performed by the valuer is based on market prices, similar properties adjusted for differences in the nature, location or condition of the specific property. As at the date of revaluation on 3 October 2017, the properties' fair value was determined by Mr.S.A.S. Fernando, Fellow Member of the Institute of Valuers Sri Lanka. Fair value measurement disclosures for revalued land and buildings are provided in Note 36 to the financial statements.

Significant unobservable valuation input: Range

Land value per perch.	Rs. 22,500,000
Building value per square metre	Rs. 6,000

Increases (decreases) in estimated price per square metre in isolation would result in a higher (lower) fair value.

Reconciliation of fair value	2019	2018
	Rs.	Rs.
As at 01 January	239,705,477	239,705,477
Additions during the year	5,224,151	-
Transfer of depreciation related to revalued building	-	-
Revaluation Surplus	-	-
As at 31 December	244,929,628	239,705,477

Fair value of the land and building has not changed significantly thus no revaluation was done during the period.

12.5 During the financial year, the Bank acquired property, plant and equipment to the aggregate value of Rs 9,586,365 (2018- Rs.1,183,494). Cash payments amounting to Rs 9,586,365 (2018- Rs.1,183,494) were made during the year for purchase of property plant and equipment.

12.6 Property, plant and equipment includes fully depreciated assets having a gross carrying amount of Rs. 132,048,475 (2018 - Rs.77,027,468).

13. Leases

The balance sheet shows the following amounts relating to leases:

	Year ended 31 December	
	2019	2018
Right-of-use assets		
Buildings	22,890,149	-
	22,890,149	-
Lease liabilities		
Current	18,766,642	-
Non-current	-	-
	18,766,642	-

Additions to the right-of-use assets during the 2019 financial year were LKR 39,496,519.

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

13 Leases (contd)

The statement of profit or loss shows the following amounts relating to leases:

	Year ended 31 December	
	2019	2018
Depreciation charge of right-of-use assets		
Buildings	16,606,370	-
	16,606,370	-
Interest expense (included in finance cost)	1,940,852	-
Expense relating to short-term leases (included in cost of goods sold and administrative expenses)	-	-
Expense relating to leases of low-value assets that are not shown above as short-term leases (included in administrative expenses)	-	-
Expense relating to variable lease payments not included in lease liabilities (included in administrative expenses)	-	-
The total cash outflow for leases	15,299,640	-

14 Due to banks

	2019	2018
Deposits from other banks	50,652,897	46,649,008
	50,652,897	46,649,008

15 Financial liabilities at amortised cost - Due to customers

15.1 Due to customers - by products

	2019	2018
Demand deposits	524,798,753	288,570,328
Savings deposits	718,222,364	651,509,516
Time deposits	1,278,858,992	1,196,004,116
Call deposits	12,774,962	407,924
Margin balances	2,558,642	3,491,612
	2,537,213,713	2,139,983,496

15.2 Due to customers - by currency

Local currency - Sri Lankan Rupees	2,075,955,439	1,708,756,995
Foreign currency - United States Dollar	105,802,477	30,231,134
Foreign currency - others	355,455,797	400,995,367
	2,537,213,713	2,139,983,496

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

16 Other liabilities

	2019	2018
Accrued expenses	37,251,868	42,146,478
Bills payable	9,479,110	8,128,829
Other liabilities	459,160	1,101,562
Lease liability	18,766,642	-
SLFRS 09 provision on unfunded facilities [Note 16.1]	112,520	12,275,317
	66,069,300	63,652,186

16.1 Provision on unfunded facilities

	2019	2018
Stage 1		
Opening balance	111,098	90,057
Charge to income statement	(93,836)	21,041
Closing balance	17,262	111,098
Stage 2		
Opening balance	12,164,219	6,301,478
Charge to income statement	(12,068,961)	5,862,741
Closing balance	95,258	12,164,219
	112,520	12,275,317

17 Employee benefit liability

	2019	2018
As at 1 January	49,898,398	45,228,202
Current service cost	3,203,508	3,129,031
Interest cost	5,987,808	4,748,961
Actuarial loss /(gains) on retirement benefit obligation	(7,495,577)	7,169,649
(-) Payments during the year	(9,029,226)	(10,377,445)
As at 31 December	42,564,911	49,898,398

17.1 Bank measures the Present Value of Defined Benefit Obligation (PVDBO) with the advice of an actuary using the Projected Unit Credit Method.

The actuarial valuation involves making assumptions about discount rates, future salary increases and mortality rates. Due to long term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date.

Accordingly, the employee benefits obligation is based on the actuarial valuation as at 31 December 2019, carried out by Messrs Actuarial and Management Consultants (Private) Limited, actuaries.

The key assumptions used by the management include the following,

	2019	2018
Rate of interest	10.3%	12.0%
Rate of salary increase	10%	10%
Retirement age	55 Years	55 Years
Average future working life of employees	6.03 Years	6.38 Years

17.2 Net benefit expense categorised under personal expenses,

	2019	2018
Current service cost	3,203,508	3,129,031
Interest cost	5,987,808	4,748,961
	9,191,316	7,877,992

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

17 Employee benefit liability (contd)

17.3 In order to illustrate the significance of the salary escalation rates and discount rates assumed in this valuation a sensitivity analysis for all employees assuming the above is as follows;

	2019	2018
1% increase in discount rate	(1,597,121)	(1,763,875)
1% decrease in discount rate	1,715,819	1,884,847
1% increase in salary escalation rate	1,824,465	1,989,939
1% decrease in salary escalation rate	(1,727,101)	(1,891,851)

18 Deferred tax asset / liability

	2019	2018
As at 1 January	69,273,214	24,276,429
Release / (charge) during the Year	(81,690,274)	44,996,785
As at 31 December	(12,417,060)	69,273,214

18.1.1 Deferred tax liabilities

Accelerated depreciation allowance for tax purposes -

Property plant and equipment	(4,632,541)	(7,094,649)
On revaluation of property plant and equipment	(31,418,954)	(32,989,199)
On net gain / loss on financial assets at fair value through OCI	(6,688,016)	-
	(42,739,511)	(40,083,848)

18.1.2 Deferred tax assets

On employee benefit obligations	11,918,175	13,971,551
On ECL allowance for impairment of financial assets	16,071,000	17,121,808
On carried forward tax losses	2,333,276	78,263,703
	30,322,451	109,357,062

Net deferred tax asset / (liability)	(12,417,060)	69,273,214
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Deferred tax has been determined based on the effective tax rate of 28% (2018 - 28%) except for revaluation gain on land which is 10%, as per tax laws issued by department of Inland Revenue.

19 Assigned capital

	2019	2018
Assigned capital	4,938,390,143	4,938,390,143
	4,938,390,143	4,938,390,143

19.1 The assigned capital represents the capital injections remitted by head office, Habib Bank - Karachi to the Bank and retained earnings capitalised over the years.

20 Statutory reserve fund

	2019	2018
As at 1 January	68,121,518	68,121,518
Transfer from the profits during the year [Note 24]	1,548,084	-
As at 31 December	69,669,602	68,121,518

20.1 Five per cent of profits after tax is transferred to the Statutory Reserve Fund as required by section 20(1) of the Banking Act No 30 of 1988. This reserve fund will be used only for the purposes specified in Section 20 (2) of the Banking Act No 30 of 1988. Transfers made during the was LKR 1,548,084.

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

21 Revaluation reserve

	2019	2018
As at 1 January	204,911,724	222,649,224
Revaluation of land and building	-	-
Deferred tax related to revaluation of land and building	-	(17,737,500)
As at 31 December	204,911,724	204,911,724

22 Exchange equalisation of capital

	2019	2018
As at 1 January	296,882,890	557,062,966
Exchange differences on translations of foreign currency capital	(23,290,252)	467,655,005
Realisation of exchange equalisation reserve	(182,484,690)	(727,835,081)
As at 31 December	91,107,948	296,882,890

Exchange Equalisation of Capital Reserve represents the net appreciation / depreciation of foreign currency capital maintained in Foreign Currency Banking Unit due to exchange rate fluctuations. It requires to reflect the assigned capital at the exchange rate prevailed on the date the capital was brought in, as specified by the Central Bank of Sri Lanka circular on "Request to maintain capital in foreign currency" dated 29 July 2005 and the impact due to exchange rate fluctuations is recorded in Exchange Equalisation of Capital.

During the period company converted its USD capital of USD 10,519,888 into LKR at the rate of 179.95. Exchange equalisation transferred to retained earnings amounting to LKR 182,484,690 (2018 - LKR 727,835,081).

23 Exchange equalisation of reserves

	2019	2018
As at 1 January	8,319,596	10,289,766
Exchange differences on translations of foreign currency reserves	(172,355)	(1,970,170)
As at 31 December	8,147,241	8,319,596

Exchange Equalisation of Reserve represents the effect of currency translation of statutory reserve fund maintained in Foreign Currency Banking Unit due to exchange rate fluctuations.

24 Retained earnings

	2019	2018
As at 1 January	652,570,274	109,931,346
Impact of adopting SLFRS 09	-	(39,213,775)
Deferred tax on transitional adjustemnt	-	10,979,857
Balance as at 1 January - Adjusted	652,570,274	81,697,428
Profit for the Year	30,961,681	(151,800,088)
Other comprehensive income for the year	7,495,577	(7,169,649)
Deferred tax recognised in other	(2,098,762)	2,007,502
Transfers to statutory reserve fund [Note 20]	(1,548,084)	-
Realisation of exchange equalisation reserve	182,484,690	727,835,081
As at 31 December	869,865,376	652,570,274

During the period company converted its USD capital of USD 4,000,000 into LKR, USD 1 Mn each in 4 instances at the rate of 176,176.9, 176.8 and 181.3 respectively. Exchange equalisation transferred to retained earnings amounting to LKR 182,484,690.

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

25	Interest income	2019	2018
	Placements with Banks and CBSL	138,365,784	53,196,636
	Reverse repurchase agreements	8,574,943	9,907,828
	Government securities		
	-Treasury bills	28,991,075	29,716,371
	-Treasury bonds	199,706,348	-
	Other financial assets	86,886,872	116,242,965
	Loans and advances to customers	242,437,707	258,452,904
		704,962,729	467,516,704
Interest Income earned from government securities (Treasury bills, Reverse repurchase agreements and standing deposit facilities) for the year 2019 amounts to Rs.251,847,692 (2018 - Rs. 49,933,293) and has been grossed up by adding notional tax receivable where applicable.			
26	Interest expense	2019	2018
	Due to customers	135,981,910	168,057,138
	Money market and other borrowings	3,565,685	170,268
	Interest expense on lease liability	1,940,852	-
		141,488,447	168,227,406
27	Fees and commission income	2019	2018
	Commission on trade finance facilities	132,377	1,189,102
	Commission on guarantees	605,843	1,526,338
	Commission on remittances	472,961	224,839
		1,211,181	2,940,279
28	Other operating income	2019	2018
	Dividend income	2,139,250	1,801,700
	Foreign exchange gain	1,692,629	(54,785,899)
	Other income	14,678,250	13,897,756
		18,510,129	(39,086,443)
29	Impairment charges and other losses	2019	2018
	Individual impairment charge / (reversal)	38,727,189	69,838,349
	Collective impairment charge / (reversal)	(3,682,473)	3,652,817
		35,044,716	73,491,166
		2019	2018
	Impairment on loans and receivables from other customers	41,370,114	67,055,300
	Impairment on Investment and placements	5,837,399	552,084
	Impairment on off balance sheet obligations	(12,162,797)	5,883,782
		35,044,716	73,491,166

HABIB BANK LIMITED - SRI LANKA BRANCH**Notes to the financial statements (contd)****30 Personnel expenses**

	2019	2018
Salaries	106,375,543	101,119,112
Employee benefits - defined benefit plan [Gratuity] [Note 17.2]	9,191,316	7,877,992
Employee benefits - defined contribution plan		
Employee Provident Fund (EPF)	10,788,238	11,663,651
Employee Trust Fund (ETF)	2,544,855	2,126,853
Bonus	20,550,632	27,266,682
Other allowances	75,317,554	74,415,820
Amortisation of staff loan day 1 impact	3,882,243	3,089,387
	228,650,381	227,559,497

31 Other operating expenses

	2019	2018
Auditors fees and expenses	3,103,000	2,900,000
Non audit fees and expenses	397,000	706,420
Legal fees	5,568,639	4,421,171
Marketing expenses	2,523,662	2,178,750
Travelling expenses	3,281,686	5,987,831
Security charges	6,743,902	7,059,041
Rent expenses (Note 31.1)	-	25,958,013
License fee	3,000,000	2,200,000
Subscription	1,208,704	1,461,079
Other expenses	57,984,765	58,374,713
	84,208,358	111,247,018

31.1 As per SLFRS 16 - Leases (with effective from 01 January 2019), rent expense is not recognised as an expense in profit and loss, instead a lease liability and a corresponding RoU asset is recognised in the balance sheet and an interest expense on lease liability is recognised in profit or loss. Please refer Note 2.1.7 for the Bank's accounting policy on leases.

32 Income tax and other taxes and levies**32.1 Taxes and levies on financial services**

	2019	2018
Value Added Tax (VAT)	52,176,911	8,641,364
Nations Building Tax (NBT)	6,290,646	1,348,328
Debt Repayment Levy (DRL)	29,447,035	2,737,881
	87,914,592	12,727,573

Debt Repayment Levy is calculated at 7% on value addition computed for VAT on financial services by Banks and financial institutions with effect from 1 October 2018 and carries until 31 December 2021.

32.2 Income tax expense

	2019	2018
Current income tax		
Current income tax on profit for the year [Note 32.3]	-	-
Under / (over) provision of current taxes in respect of prior years	-	734,401
	-	734,401
Deferred income tax		
Deferred tax charge / (reversal) for the year	72,903,496	(49,746,927)
Income tax expense reported in the income statement	72,903,496	(49,012,526)
Deferred income tax		
Deferred tax recognised on fair value gain / (loss) from financial instruments at fair value through other comprehensive income	6,688,017	-
Deferred tax recognised on actuarial loss / (gains) on retirement benefit obligation	2,098,762	15,729,998
Income tax expense reported in the statement of comprehensive income	8,786,778	15,729,998

HABIB BANK LIMITED - SRI LANKA BRANCH**Notes to the financial statements (contd)****32 Income tax and other taxes and levies (contd)****32.3 Reconciliation between current tax expenses and the accounting profit:**

	2019	2018
Accounting profit before taxation	103,865,177	(200,812,613)
Tax at the applicable tax rate of 28% (2018 - 28%)	29,082,250	(56,227,532)
Tax effect from expenses not deductible for tax purposes	46,437,574	36,125,538
Tax effect from Allowable deductions and income not subject to tax	(2,616,328)	(29,644,933)
Adjustments for current tax of prior periods	-	734,401
Tax charge / (credit)	72,903,496	(49,012,526)

33 Cash flow information**Cash flows from operating activities**

		2019	2018
33.1 Reconciliation of operating profit			
Profit / (loss) before tax		103,865,177	(200,812,614)
Gain on disposal of property, plant and equipment		(22,683)	(2,343,890)
Depreciation of property plant and equipment	12.2	26,905,998	38,930,494
Depreciation of right to use asset	13	16,606,370	-
Impairment charge / (reversal) for loans and advances	29	41,370,114	67,055,300
Impairment charge / (reversal) for investment and unfunded facilities	16/29	(6,325,398)	6,435,866
Dividend income	28	(2,139,250)	(1,801,700)
Gratuity expense	17.2	9,191,316	7,877,992
Interest on lease creditor	13	1,940,852	-
Unrealised fair value (gains) / losses on financial instruments measured at fair value through profit / loss	7	(5,544,550)	-
		185,847,946	(84,658,553)
33.2 Increase / (decrease) in operating assets			
Reverse repurchase agreements		-	650,388,745
Placement with banks		125,501,132	(475,478,532)
Balances with Central Bank of Sri Lanka		(2,074,145,321)	1,287,919,195
Other financial assets		211,235,154	(162,725,450)
Loans and advances to customers		581,333,697	263,489,736
Other assets		(32,945,725)	(10,319,829)
		(1,189,021,063)	1,553,273,865
33.3 (Decrease) / increase in operating liabilities			
Due to banks (Vostro)		4,003,889	(16,895,649)
Due to customers		397,230,216	(339,232,871)
Other borrowing		-	(30,021,654)
Other liabilities		12,639,059	7,319,654
Employee benefit liability		(9,029,226)	(10,377,445)
		404,843,938	(389,207,965)

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

34 Related party disclosure

The Bank carries out transactions in the ordinary course of business on an arms length basis at commercial rates with related parties.

Details of significant related party disclosures are as follows,

34.1 Transactions with Key Management Personnel

Key Management Personnel (KMP) include the Regional General Manager - Habib Bank Limited Sri Lanka Branch having authority and responsibility for planning, directing and controlling the activities of the Habib Bank Limited - Sri Lanka Branch directly and indirectly.

	2019	2018
Short term employee benefits	46,624,869	34,588,717
	46,624,869	34,588,717
Deposits	20,731,556	9,716,563
	20,731,556	9,716,563
Interest expense	245,538	74,007
	245,538	74,007

34.2 Transactions with affiliate branches Items in the statement of financial position

	2019	2018
Balances due from Banks (Nostro Balances)		
Habib Bank Limited - UAE	105,356,524	-
Habib Allied International Bank- UK	8,966,799	2,346,962
Habib Bank Limited - Belgium	13,140,855	6,700,042
Habib Bank Limited - Singapore	584,243	981,686
Habib Bank Limited - Bangladesh	2,118,543	2,133,309
Habib Bank Limited - Pakistan	4,668,577	-
	134,835,541	12,161,999
Balances due to Banks (Vostro Balances)		
Habib Bank Limited - Male	43,154,611	43,194,906
Habib Bank Limited - Central Branch - Oman	257,300	257,300
Habib Bank Limited - Deira Branch - Dubai	112,078	112,078
Habib Bank Limited - HO Treasury - Karachi	7,128,907	3,084,724
	50,652,896	46,649,008

34.3 Transactions with Habib Bank Limited - Employee Provident Fund Items in the statement of financial position Liabilities

	2019	2018
Saving deposit	122,567,538	107,882,340
	122,567,538	107,882,340
Items in the statement of comprehensive income		
Employee benefits - Employee Provident Fund	10,788,238	9,403,149
Interest expense	11,269,578	11,879,774
	22,057,816	21,282,923

HABIB BANK LIMITED - SRI LANKA BRANCH**Notes to the financial statements (contd)****35. Maturity analysis of assets and liabilities****As at 31 December**

Assets	Within 12 Months	After 12 Months	2019 Total	Within 12 Months	After 12 Months	2018 Total
Cash and cash equivalents	1,594,367,294	-	1,594,367,294	2,223,464,095	-	2,223,464,095
Balances with Central Bank of Sri Lanka	77,238,084	-	77,238,084	70,797,200	-	70,797,200
Placements with financial institutions	1,001,397,263	-	1,001,397,263	1,126,898,395	-	1,126,898,395
Derivative financial instruments	5,544,550	-	5,544,550	-	-	-
Financial assets at amortised cost		2,057,491,805	2,057,491,805	189,972,687	-	189,972,687
Other financial assets at amortised cost	282,315,755	365,000,000	647,315,755	648,003,985	209,600,000	857,603,985
Loans and advances to customers	1,867,597,079	1,025,047,081	2,892,644,160	2,008,237,227	1,507,110,743	3,515,347,970
Financial assets measured at fair value through other comprehensive income	194,528,823	23,337,945	217,866,768	-	580,000	580,000
Other assets	37,986,710	-	37,986,710	32,931,382	20,998,354	53,929,736
Income tax receivable	90,186,207	-	90,186,207	80,793,974	-	80,793,974
Property, plant and equipment	-	263,278,928	263,278,928	-	280,717,978	280,717,978
Deferred tax asset	-	-	-	-	69,273,214	69,273,214
Right of Use (ROU) asset	8,571,156	14,318,993	22,890,149	-	-	-
Total assets	5,159,732,921	3,748,474,752	8,908,207,673	6,381,098,945	2,088,280,289	8,469,379,234

Liabilities

Due to banks	50,652,897	-	50,652,897	46,649,008	-	46,649,008
Due to customers	2,537,213,713	-	2,537,213,713	2,139,983,496	-	2,139,983,496
Other liabilities	66,069,300	-	66,069,300	63,652,186	-	63,652,186
Employee benefit liability	-	42,564,911	42,564,911	-	49,898,398	49,898,398
Deferred tax liabilities	-	12,417,060	12,417,060	-	-	-
Total liabilities	2,653,935,910	54,981,971	2,708,917,881	2,250,284,690	49,898,398	2,300,183,088

HABIB BANK LIMITED - SRI LANKA BRANCH**Notes to the financial statements (contd)****36. Fair value measurement****36.1 Fair value measurement hierarchy for assets as at 31 December 2019****36.1.1 Assets measured at fair value**

The following table provides an analysis of assets recorded at fair value by level of the fair value hierarchy in to which the fair value measurement is categorised. The amounts are based on the value recognised in the statement of financial positions. Please refer Note 2.3.2 of the financial statements on accounting policies of fair value measurement.

Bank	Date of valuation	Total	Quoted prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		Rs.	Rs.	Rs.	Rs.
As At 31 December 2019					
Assets measured at fair value					
Land and building :					
Land	03 October 2017	183,375,000	-	-	183,375,000
Buildings	03 October 2017	56,225,000	-	-	56,225,000
Derivative financial instruments	31 December 2019	5,544,550	-	5,544,550	-
Financial assets measured at fair value through other comprehensive income :					
Investment in government securities - treasury bills	31 December 2019	194,528,823	-	194,528,823	-
Unquoted investments in Lanka Clear (Private) Limited and Credit Information Bureau of Sri Lanka	31 December 2019	23,337,945	-	23,337,945	-
		463,011,318	-	223,411,318	239,600,000
Assets not carried at fair value for which fair values are disclosed					
As At 31 December 2019					
Other financial assets	31 December 2019	2,704,807,560	-	2,704,807,560	-
Loans and advances to customers	31 December 2019	2,892,644,160	-	2,892,644,160	-
		5,597,451,720	-	5,597,451,720	-

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

36. Fair value measurement (contd)

36.2 Fair value of financial assets and liabilities not carried at fair value

The following describes the methodologies and assumptions used to determine the fair values for those financial instruments which are not already recorded at fair value in the financial statements.

Assets	2019		2018	
	Fair Value Rs.	Carrying Value Rs.	Fair Value Rs.	Carrying Value Rs.
Other financial assets	2,704,807,560	2,704,807,560	859,130,909	859,130,909
Loans and advances to customers	2,892,644,160	2,892,644,160	3,515,347,971	3,515,347,971
	5,597,451,720	5,597,451,720	4,374,478,880	4,374,478,880

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that have a short term maturity (original maturities less than a year), it is assumed that the carrying amounts approximate their fair values.

The following is a list of financial instruments whose carrying amount is a reasonable approximation of fair value because, for example, they are short-term in nature to reprice to current market rates frequently;

Assets

Cash and cash equivalents
Balances with Central Bank of Sri Lanka

Liabilities

Due to Banks
Other Borrowings
Due to Customers

Fixed rate financial instruments

Carrying amounts are considered as fair values for short term credit facilities. Loans and advances with fixed interest rates were fair valued using market rates at which fresh loans were granted during the fourth quarter of the reporting year. Interest rates based on treasury bond rates with similar tenors with an adjustment for risk premium have been used to arrive at the fair value of debentures and trust certificates.

Based on Bank policy land and buildings were revalued and recognised in Level 3. Please refer Note 12.4 to the financial statements for more details.

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

37. Risk management

37.1 Risk management framework

Risk is an inherent part of the banking business and banking is about managing risk and return. Success in any venture in general and the banking business in particular is dependent on how well an institution manages its risk. The main goal is not to eliminate risk, but to be proactive in efficiently identifying, assessing, measuring (as far as possible), monitoring and controlling risks to an organisation's strategic advantage.

The Bank plans to continue diversifying its business and ensuring sustained growth and profitability amidst increasing competitiveness and challenges in the banking industry and works to implement the comprehensive risk management, capital adequacy and internal control standards enforced by the Central Bank of Sri Lanka. To this end, the Bank has a well-defined Risk Management Framework comprising of an effective risk management strategy, risk management structure and a policy framework.

The Integrated Risk Management Committee shall be ultimately responsible to ensure formulation and implementation of a comprehensive Risk Management Framework.

37.1.1 Components of Risk Management Framework

Following are various components of the Risk Management Framework and their essential features:

37.1.1.1 Strategy

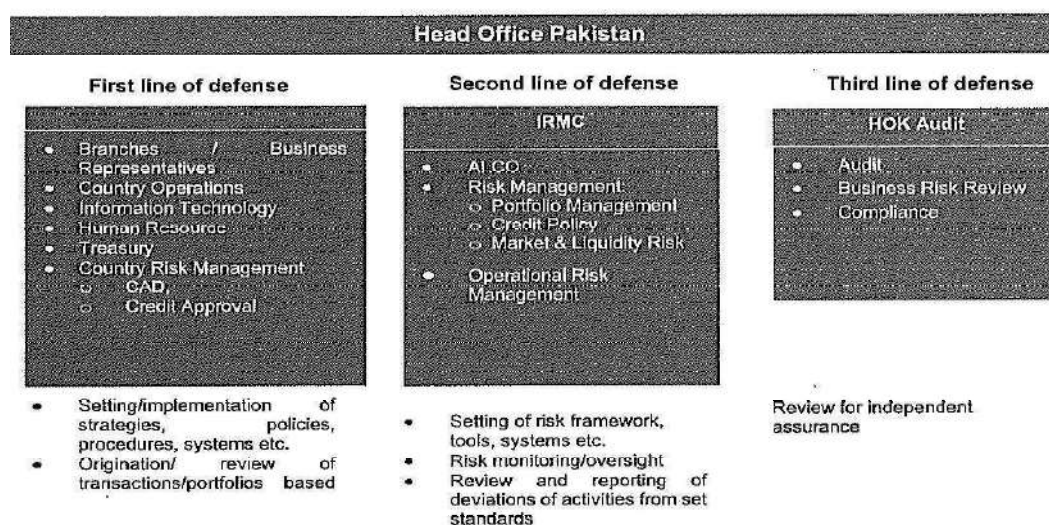
Consolidated annual business plan of the bank will serve as its business strategy. Risk management strategy will essentially be represented by Risk Appetite Statement of HBL SL covering all material Risk types that it is exposed to.

Risk Appetite is defined as the quantum of the risk bank is willing to assume in different areas of business in achieving its strategic objectives and ensuring maintenance of desired risk profile. The Risk strategy of HBL SL is captured through a documented Risk Appetite Statement which is developed by the Risk Management function and approved by the Board.

37.1.1.2 Risk Management Structure

The Bank's risk management approach is underpinned by an appropriate risk management structure. This structure shall be represented by three lines of defense in order to ensure that the risks are managed effectively on an entity level.

Risk Management Structure - Three lines of Defense



The following is the description of the Bank's risk management structure describing the relationships and reporting responsibilities:

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

37. Risk management (contd)

37.1 Risk management framework (contd)

37.1.1.2 Risk Management Structure (contd)

Country Manager (CM) / Regional General Manager (RGM)

The CM / RGM is ultimately responsible for any financial loss or reductions in Capital suffered by the Bank. Therefore, it is the duty of the CM / RGM to recognise all the significant/ material risks to which the Bank is/ may be exposed and to ensure that the required human resource, culture, practices and systems are in place to address such risks.

Integrated Risk Management Committee (IRMC)

IRMC is the highest level oversight committee and supervising body for all types of risks faced by the bank, notably credit, market, liquidity, operational risk and compliance.

As per CBSL Guidelines, the Committee should comprise of at least three non-executive directors, chief executive officer and key management personnel supervising broad risk categories i.e. credit, market, liquidity, operational and strategic risks.

Keeping in view the structure of HBL Sri Lanka, it comprises of Country Manager/ Regional General Manager, Country Operations Manager, Country / Regional Risk Manager, Financial Controller, Compliance Manager, Manager Operational Risk, Manager IT and Manager Internal Control. The Country / Regional Risk Manager is the Secretary of the Committee.

Asset and liability Committee (ALCO)

Local ALCO is the focal point for defining and leading the entire asset liability management process within the Bank. In this regard, Local ALCO also has responsibility for oversight of all market and liquidity risks. It is chaired by CM / RGM (Chairman ALCO) and other members are Head of Treasury (Secretary), Country Operations Manager, Financial Controller, Country / Regional Risk Manager and Business Heads.

Local Credit Risk Management Committee (CRMC)

The local CRMC has the responsibility for oversight of credit risk taking activities and the overall credit risk management function of HBL SL.

CRMC have minimum of Five members, consisting of the Regional General Manager, Country / Regional Risk Manager, Heads of Business Units, Head of CAD and Head of Treasury. The CM/RGM(or his designate) chairs the committee. The Country / Regional Risk Manager is the secretary of the committee.

Risk Management Group

For effective implementation of the Risk Management Framework the Board of Directors has ensured that a dedicated Risk Management function operates within the bank and the function is independent from other business units, support functions as well as the Internal Audit Function.

Risk Management plays a pivotal role in monitoring the risk associated with all activities of the bank. The function at HBL is headed by the Chief Risk Officer (CRO) reporting to the president with an independent reporting line to the Board. For HBL SL the Country / Regional Risk Manager is the representative of Risk Management in the country and reports to International Risk. International Risk reports to CRO.

Country / Regional Risk Manager (RRM)

RRM shall be responsible for managing following significant areas:

- Risk Management Policies, Procedures and Systems
- Credit approvals
- Credit administration
- Portfolio management
- Market and liquidity risk management
- Implementation of CBSL guidelines on Basel III including the ICAAP

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

37. Risk management (contd)

37.2 Basel III

The Central Bank of Sri Lanka (CBSL) has issued guidelines on Capital requirements under Basel III in 2017 and instructed banks to comply with the same from 1 July 2017. HBL SL is fully compliant with these requirements. Details of compliance under each Pillar is disclosed below.

Pillar I - Minimum Capital Requirement

The objective of Basel III framework under Pillar I (Minimum Capital Requirement) is to ensure that banks holds sufficient capital for Credit Market & Operational risk. HBL SL is compliant with the following approaches of Basel III under Pillar I.

Credit Risk: Standardised Approach

Market Risk: Standardised Measurement Approach

Operational Risk: Basic Indicator Approach

HBL SL is maintaining capital well above the minimum capital requirement set under the Basel III Capital adequacy Framework.

Pillar II - Supervisory Review Process (SRP)

The stress tests carried out as at 31.12.2018 are given below:

Credit Risk

Increase in Non Performing Assets and the impact of the same on Capital Adequacy Ratio (CAR)

Credit Concentration Risk

Impact of default of Large borrowers on CAR

Exchange Rate Risk

Impact of change in exchange rate movement on banks NOP and resultant impact on CAR.

Interest Rate Risk

Impact of change in interest rate on CAR for banking book

Liquidity Risk

Impact of reduction in liquid liabilities and assets on liquidity ratio

Impact of loss of large depositors on Liquid Asset Ratio

Impact of loss of wholesale & interbank deposits/ borrowings on Liquid Asset Ratio

Other Stress Test

Other stress covers Country Risk, Reputational Risk, Compliance Risk, Legal Risk & Operational Risk

Pillar III - Disclosures

As per requirements of Basel III the risk management disclosures are covered in Note 37.

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

37. Risk management (contd)

37.3 Credit risk

37.3.1 Introduction

Credit risk is the risk of loss due to the failure of a borrower to meet its credit obligations in accordance with the agreed contract terms. Credit risk makes up the largest part of the 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 which produces a reliable and consistent return.

37.3.2 Credit strategy / policies

The credit risk strategy of HBLSL reflects tolerance for risk i.e. credit risk appetite and the level of expected profitability. This, as a minimum, reflects the statement and strategy to grant credit based on various products, economic sectors, client segments etc, target markets giving due consideration to risks specific to each target market and preferred level of diversification/ concentration and specific long term and short term business opportunities in each target market, cost of capital in granting credit and bad debts, minimum risk acceptance criteria and exclusion markets considering the business, pricing, collateralisation strategies, the cyclical aspects and the resulting shifts in the composition and quality of the loan portfolio and the effect of credit risk strategy on the market, liquidity and operational risks.

Credit risk policies provide framework for the credit risk management process in the Bank and all credit policies are in line with this framework. The core credit risk Management architecture of the Bank consists of established policies, procedures and processes including a well-defined approval hierarchy which is supported by high ethical standards. The Credit Policy Manual ("CPM") is the customised form of the global Credit Policy Manual of HBL for implementation at HBLSL, it outlines the principles by which the Bank conducts its credit risk management activities.

37.3.3 Credit risk management

The bank follows its Credit Policy Manual and Credit Administration Procedure Manual for management of credit risks.

Credit risk arises from loans given to various corporate, SME and individual customers. It can arise from both on-balance sheet and off-balance sheet activities such as Letters of credit and Letters of guarantee.

Primary activities pertaining to credit risk management are: regular reviewing and implementing credit risk framework comprising of policies, procedures, methodologies, tools and Management Information Systems etc., portfolio management, credit approval, work on Basel III projects, provision of necessary support in credit risk capital calculations, and credit administration etc.

Credit risk management organisation

The Credit Risk Management Structure of HBL Sri Lanka comprises of the following.

International Risk Management, (based in Pakistan)

Integrated Risk Management Committee (IRMC)

Country Risk Management

- Credit Policy
- Credit Approvals
- Credit Administration
- Portfolio Management

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

37. Risk management (contd)

37.3 Credit risk (contd)

37.3.3 Credit risk management (contd)

Credit risk management process

Salient features of credit approval process are delineated below:

- Every extension of credit to any counterparty requires approval by the personnel having credit approval authorities.
- 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 / predefined level.
- Credit approval authority is assigned to individuals according to their qualifications and experience.

Before allowing a credit facility, the Bank assesses the risk profile of the customer / transaction. This, as a minimum, include credit assessment of the borrower's industry and macro-economic factors, purpose of credit and source(s) of repayment, track record / repayment history and experience of borrower, assessment of repayment capacity of the borrower, present and future cash flows, proposed terms and conditions and covenants and adequacy and enforceability of collaterals.

The disbursement, administration and monitoring of credit facilities are managed by Credit Administration Departments (CAD) which operates under the Country Risk Manager as part of the Credit Risk Management. CAD is also responsible for collateral / documents management.

Credit risk assessment and analytics

The Bank has a credit rating system, developed by HBL (Head Office) for bank's global network for borrowers, which is based on the assessment of some quantitative and qualitative factors and also involves application of expert judgment.

The obligor ratings is assigned at the time of credit initiation and then reviewed on an annual basis or upon receipt of financial information, whichever is earlier. A more than usual frequency is also being followed for borrowers on watch list or being high risk.

Business Risk Review (BRR), which is independent of loan origination function and International Risk Management, validates the assigned ratings periodically by taking into account the information available with the relevant approval authorities at the time of the credit approval.

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

37. Risk management (contd)

37.3 Credit risk (contd)

37.3.3 Credit Risk Management (contd)

Credit Risk Monitoring and Reporting

The Bank's philosophy of effective credit risk monitoring is based on a continuous close monitoring of the key credit risk indicators, behavioral and characteristics of individual credit portfolios and environmental factors that may have an impact on the Bank's credit risk profile.

Extensions of credit approved through a Credit Program is reported as specific exposures and aggregated with other credit exposures for a relationship. It is the responsibility of the Business Units / Personnel to ensure that credit risk data is reported into the independent credit risk reporting systems, and is timely, accurate and complete. On a periodic basis, the Regional General Manager/Country Manager, Business Head and the Country / Regional Risk Manager review the outstanding portfolio to ensure ongoing adherence to aggregate program parameters and limits.

Credit Risk Mitigation

As a general policy, the Bank lends against cash flow, i.e., cash flow is the primary source of repayment. In case, cash flow becomes insufficient or unavailable, other avenues (for instance, injection of equity, additional debt from other lenders, liquidation of non-core assets, etc.) for reduction of the Bank's credit exposure are actively pursued. When all other avenues for repayment have been exhausted, liquidation of collateral are sought to settle the residual exposure of the Bank.

As a general guideline, collateral should be available for at least the life of the facility that it is securing so as to provide an appropriate cushion. Under the Basel III Standardised approach, collateral that is valid for at least the life of the facility is eligible for credit risk mitigation purposes. As such, it should be ensured that either this is the case or pricing is set to compensate for the incremental capital required.

Collateral is taken in any of a number of forms, for instance:

- first pari-passu charge (where the prior charge holders, by issuance of No Objection Certificates (NOCs), agree to share pro-rata the collateral under charge
- inferior charge
- floating charge
- lien on cash deposit
- pledge of marketable securities such as GOSL bonds, Shares etc.
- legal mortgage, i.e., any of a number of types of claims against real property or fixed assets
- standby letter of credit / bank guarantee
- corporate or personal guarantees

Collateral should match the purpose, nature and structure of the transaction; it should reflect the form and capacity of the obligor, its operations, and the business and economic environment. Collateral may include the assets acquired through the funding provided, i.e. stock, receivables, or export bills, current assets, fixed assets, specific equipment, and commercial and personal real estate.

Collateral valuation and management

Collateral Valuation is carried out periodically in line with the Credit Policies, CBSL guidelines and Credit Administration Procedures of the bank.

Main Types of Guarantors

Following are three types of Guarantors the bank obtains guarantees from as a credit risk mitigant:

- Personal Guarantees of Partners / Directors / Collateral providers
- Cross Corporate Guarantees in case of group entities
- Corporate Guarantees

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

37. Risk management (contd)

37.3.4 Credit risk exposure

The total gross loans and receivables from all credit customers of the Bank stood at Rs. 3,147.498Mn as at 31 December 2019 (2018 - Rs. 3,729,267Mn) . Please refer Note 8.1 for the product wise loans and advances.

37.3.4.1 Commitments and contingencies

To meet the financial needs of customers, the Bank enters in to various commitments and contingent liabilities. Even though these obligations may not be recognized on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the bank.

	Year ended 31 December	
	2019	2018
Letter of credits	-	-
Guarantees	343,943,832	439,781,706
Bonds	103,644,910	-
Acceptances	-	-
Undrawn commitments	560,432,365	497,469,711
Derivative financial instruments	333,841,480	-
Operating lease commitments	-	27,141,744
	1,341,862,587	964,393,161

The maximum exposure to credit risk relating to guarantees is the maximum amount the Bank have to pay if the guarantees are called upon. Undrawn commitments consist of facilities granted to customers where the Bank reserves the right to unconditionally cancel or recall the facility at it's discretion.

Commitments for minimum lease payments in relation to the operating leases are payable as follows:

	2019	2018
Within one year	-	15,299,640
Later than one year but not later than five years	-	11,842,104
Later than five years	-	-
	-	27,141,744

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

37. Risk management (contd)

37.3.4.2 Analysis of risk concentration

The following table shows the risk concentration by industry for the risk concentration related components of the statement of financial position.

As at 31 December 2019	Agriculture and fisheries	Financial services	Government	Manufacturing	Construction and housing	Traders	Other	Total
Cash and cash equivalents	-	1,594,367,294	-	-	-	-	-	1,594,367,294
Balances with Central Bank of Sri Lanka	-	-	77,238,084	-	-	-	-	77,238,084
Placements with financial institutions	-	1,001,397,263	-	-	-	-	-	1,001,397,263
Derivative financial instruments	-	5,544,550	-	-	-	-	-	5,544,550
Financial assets at amortised cost	-	640,531,431	2,064,276,129	-	-	-	-	2,704,807,559
Financial assets measured at fair value through other comprehensive income	-	-	194,528,823	-	-	-	23,337,945	217,866,768
Total other financial assets	-	3,241,840,538	2,336,043,036	-	-	-	23,337,945	5,601,221,518
Loans and advances to customers								
Term loans	-	183,448,505	-	991,356,605	2,346,855	-	646,672,806	1,823,824,771
Overdraft	5,097,117	-	-	68,350,059	1,233,400	668,682,575	203,234,695	946,597,846
Consumer loans	-	-	-	-	-	-	-	-
Short term loans	4,691,854	-	-	-	-	49,873,955	26,335,628	80,901,437
Trade finance loans	200,000,000	-	-	-	-	32,693,673	-	232,693,673
Staff loans	-	-	-	-	17,452,125	-	46,028,400	63,480,525
Bills of exchange	-	-	-	-	-	-	-	-
Gross loans and advances	209,788,971	183,448,505	-	1,059,706,664	21,032,380	751,250,203	922,271,530	3,147,498,252
Allowance for impairment losses	(8,057,782)	(2,943,312)	-	(84,269,577)	(1,570,851)	(126,329,765)	(31,682,805)	(254,854,092)
Net loans and advances	201,731,189	180,505,193	-	975,437,087	19,461,529	624,920,438	890,588,724	2,892,644,160
Total	201,731,189	3,422,345,731	2,336,043,036	975,437,087	19,461,529	624,920,438	913,926,669	8,493,865,678
As at 31 December 2018								
Cash and cash equivalents	-	2,223,464,095	-	-	-	-	-	2,223,464,095
Balances with Central Bank of Sri Lanka	-	-	70,797,200	-	-	-	-	70,797,200
Reverse repurchase agreements	-	-	-	-	-	-	-	-
Placements with financial institutions	-	1,126,898,395	-	-	-	-	-	1,126,898,395
Financial assets at amortised cost	-	858,550,909	189,972,687	-	-	-	-	1,048,523,595
Financial assets measured at fair value through other	-	-	-	-	-	-	580,000	580,000
Total other financial assets	-	4,208,913,399	260,769,887	-	-	-	580,000	4,470,263,285
Loans and advances to customers								
Gross loans and advances	349,106,029	283,537,023	-	1,759,845,525	24,241,609	400,014,937	912,522,273	3,729,267,396
Allowance for impairment losses	(7,754,309)	(3,632,191)	-	(55,282,438)	(1,543,942)	(122,780,943)	(22,925,602)	(213,919,425)
Net loans and advances	341,351,720	279,904,832	-	1,704,563,087	22,697,667	277,233,994	889,596,671	3,515,347,971
Total	341,351,720	4,488,818,231	260,769,887	1,704,563,087	22,697,667	277,233,994	890,176,671	7,985,611,256

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

37. Risk management (contd)

37.3.4.3 Credit quality analysis

Credit quality of financial assets

The table below shows the credit quality by class of financial assets exposed to credit risk. The amounts presented are gross of impairment allowances.

As at 31 December 2019	Neither past due nor impaired	Past due but not individually impaired	Individually Impaired	2019 Total
Cash and cash equivalents	1,594,367,294	-	-	1,594,367,294
Balances with Central Bank of Sri Lanka	77,238,084	-	-	77,238,084
Placements with financial institutions	1,001,397,263	-	-	1,001,397,263
Financial assets at amortised cost				-
- Gross loans and advances to customers	-	-	-	-
Term loans	1,821,477,916	-	2,346,855	1,823,824,771
Overdraft	176,301,156	590,412,886	179,883,804	946,597,846
Short term loans	36,257,853	24,951,730	19,691,854	80,901,437
Trade finance loans	200,000,000		32,693,673	232,693,673
Staff loans	62,002,709	1,477,816	-	63,480,525
- Debt and other instruments	2,704,807,560	-	-	2,704,807,560
Financial assets at fair value through other comprehensive income	217,866,768	-	-	217,866,768
Total	5,218,713,962	616,842,432	234,616,186	6,070,172,580
As at 31 December 2018	Neither past due nor impaired	Past due but not individually impaired	Individually Impaired	2018 Total
Cash and cash equivalents	2,223,464,095	-	-	2,223,464,095
Balances with Central Bank of Sri Lanka	70,797,200	-	-	70,797,200
Placements with financial institutions	1,126,898,395	-	-	1,126,898,395
Financial assets at amortised cost				
- Gross loans and advances to customers				
Term loans	2,081,175,549	3,832,929	537,630,060	2,622,638,538
Overdraft	356,102,810	13,519,690	264,599,849	634,222,349
Short term loans	2,775,000	-	48,259,458	51,034,458
Trade finance loans	337,000,000	-	32,693,673	369,693,673
Staff loans	51,678,377	-	-	51,678,377
- Debt and other instruments	1,048,523,595	-	-	1,048,523,595
Financial assets at fair value through other comprehensive income	580,000	-	-	580,000
Total	7,298,995,021	17,352,619	883,183,040	8,199,530,680

Note : Past due loans include any loan that are in arrears for one day and above.

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

37. Risk management (contd)

37.3.4.3 Credit quality analysis (contd)

Maximum exposure to credit risk by risk rating (SLFRS 09)

Bank's financial instruments portfolio is divided into Funded, Unfunded, Investments & Placements. These categories are further sub categorised into SME, Corporate & Retail and credit quality of such facilities are determined as below based on internal risk rating.

Investments, placements and money at call	Carrying amount	Subject to 12 month ECL (Stage 1)	Subject to Lifetime ECL (Stage 2)	Subject to Lifetime ECL (Stage 3)
Rating 1-3: Investment grade	3,907,517,969	3,907,517,969	-	-
Rating 4-7: Moderate risk	-	-	-	-
Rating 8-9A: High risk	-	-	-	-
Rating 10-12: Extreme risk	-	-	-	-
	3,907,517,969	3,907,517,969	-	-

Loans and advances to customers	Carrying amount	Subject to 12 month ECL (Stage 1)	Subject to Lifetime ECL (Stage 2)	Subject to Lifetime ECL (Stage 3)
Rating 1-3: Investment grade	884,125,121.79	248,951,599	635,173,523	-
Rating 4-7: Moderate risk	1,017,792,563.39	794,845,762	222,946,801	-
Rating 8-9A: High risk	1,009,870,482.16	-	734,589,530	275,280,953
Rating 10-12: Extreme risk	235,710,084.82	-	-	235,710,085
	3,147,498,252	1,043,797,361	1,592,709,854	510,991,038

Financial assets are classified to stage 2, if they have a significant increase in credit risk since initial recognition (unless they have low credit risk at the reporting date) but that do not have objective evidence of impairment. Criteria used by the bank in order to categories as Stage 2 are as follows.

- Internal ratings 7 to 9A or facilities with external ratings B to C will be directly categorized in stage 2
- 2 or more grade: for facilities which were internally rated 3 to 4 (or external ratings of AAA to BBB)
- 1 or more grade: for other facilities which were internally rated 5 to 7 (or external ratings from BBB to BB and below) at inception

stage 3 financial instruments are considered to be impaired and ECL is calculated based on prudential requirements of CBSL.

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

37. Risk management (contd)

37.3.4.3 Credit quality analysis (contd)

Aging of past due but not individually impaired financial assets

Financial assets except for mentioned in below, are not past due and are not individually impaired.

	Past due below 3 months but not impaired	Past due 3-12 months but not impaired	Past due more than 12 months but not impaired	Total past due but not impaired
Term loans	-	-	-	-
Overdraft	590,412,885	-	-	590,412,885
Short term loans	24,951,730	-	-	24,951,730
Trade finance loans	-	-	-	-
Staff Loans	1,477,816	-	-	1,477,816
Total	616,842,431	-	-	616,842,431

Please refer Note 8 for the individual and collective impairment with respect to loans and advances to customers.

Bank does not rebut the 30 DPD presumption as a key SICR criterion. Thus any financial instrument which 30 DPD are classified as Stage 2. As of 31.12.2019 no financial instrument is more than 30 DPD except for stage 3 classified facilities.

Definition of default

The Bank has set out the following definition of default.

- Days Past Due: Exposures that have one or more instalment past due for more than 90 days. This will be consistent with the rebuttable criteria set out by SLFRS 9 and existing practice of the Bank.
- Rating: Customers rated 10 to 12 (not applicable in the case of retail facilities).
- Event driven defaults: this will be based on the customer specific factors such as breach of covenants which are deemed material, declaration of bankruptcy by the customer, death of borrower and other customer specific factors. This will be applied on a case by case basis.

Age analysis of Impaired financial assets

As at 31 December 2019	Less than 3 months	3 to 6 months	6 to 12 months	More than 12 months
Cash and cash equivalents	-	-	-	-
Balances with Central Bank of Sri Lanka	-	-	-	-
Placements with financial institutions	-	-	-	-
Financial assets at amortised cost	-	-	-	-
- Gross loans and advances to customers	-	-	-	-
Term loans	-	-	2,346,855	-
Overdraft	-	-	-	179,883,805
Short term loans	-	-	-	19,691,854
Trade finance loans	-	-	-	32,693,673
Staff loans	-	-	-	-
- Debt and other instruments	-	-	-	-
Financial Assets at fair value through other comprehensive income	-	-	-	-
Total	-	-	2,346,855	232,269,332

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

37. Risk management (contd)

37.3.4.3 Credit quality analysis (contd)

Aging of past due but not individually impaired financial assets (contd)

Age analysis of impaired financial assets (contd)

Apart from risk ratings and DPD data, following will be considered to determine significant increase in credit risk of the customers.

- When reasonable and supportable forecasts of future economic conditions directly affect the performance of a customer/group of customers, portfolios or instruments.
- When a significant change in the geographical locations of a customer or natural catastrophes that directly impact the performance of a customer/group of customers or an instrument.
- When the value of collateral is significantly reduced. (Limits shall be set and documented by HBL SL).
- When a customer is subject to litigation, that may significantly affect the performance.
- Frequent changes in the senior management of an institutional customer.
- Delay in the commencement of business operations/projects by more than one year.
- Modification of terms resulting in concessions, including extensions, deferment of payments, waiver of covenants etc.
- When the customer is deceased / insolvent.
- When the bank is unable to contact or find the customer.
- A fall of 50% or more in the turnover or profit before tax of the customer as compared to the previous year.
- Erosion in net-worth by more than 25% as compared to the previous year.

37.3.4.4 Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty.

Management monitors the market value of collateral, and requests additional collateral in accordance with the underlying agreement.

As at 31 December 2019	Maximum exposure to credit risk	Net collateral value	Net exposure
Cash and cash equivalents	1,594,367,294	-	1,594,367,294
Balances with Central Bank of Sri Lanka	77,238,084	-	77,238,084
Placements with financial institutions	1,001,397,263	-	1,001,397,263
Derivative financial instruments	5,544,550	-	5,544,550
Loans and advances to customers	2,892,644,160	2,652,129,006	240,515,154
Debt and other instruments	2,704,807,560	640,531,431	2,064,276,130
Financial assets measured at fair value through other comprehensive income	217,866,768	-	217,866,768
Contingent liabilities including financial guarantees and letters of credits	447,588,742	335,480,055	112,108,687
	8,941,454,421	3,628,140,492	5,313,313,930

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

37. Risk management (contd)

37.3.4.4 Collateral and other credit enhancements (contd)

As at 31 December 2018	Maximum exposure to credit risk	Net collateral value	Net exposure
Cash and cash equivalents	2,223,464,095	-	2,223,464,095
Balances with Central Bank of Sri Lanka	70,797,200	-	70,797,200
Reverse repurchase agreements	-	-	-
Placements with financial institutions	1,126,898,395	-	1,126,898,395
Other financial assets	859,130,909	859,130,909	-
Loans and advances to customers	3,515,347,971	3,622,185,570	-
Contingent liabilities including financial guarantees and letters of credits	439,781,705	355,801,552	83,980,154
	8,235,420,275	4,837,118,031	3,505,139,844

The bank considers any collateral as eligible for SLFRS 9 as per the policies set by the bank and as per the regulations issued by CBSL for the calculation of ECL.

In order to determine the fair value of collaterals for calculation of ECL, the bank conducts revaluations of mortgaged property, plant and machinery every 3 years through an external independent valuer as specified in CBSL direction No. Direction No. 03 of 2008 – Classification of loans and advances, income recognition and provisioning and in line with banks internal policies and procedures.

The Bank has not recognised a loss allowance for financial instruments which are fully secured against cash collaterals.

37.4 Market risk

Introduction

Market risk is the risk of decrease in the value of an investment due to movement in market factors in particular, changes in interest rates, foreign exchange rates, and equity prices. Movements in interest rate is a function of broad macroeconomic activity such as level of real output in an economy and inflationary pressures. Foreign exchange risk also depends on broad fundamentals. It cannot be divorced away from interest rate risk because even an expectation of interest rate movement could cause significant movement in a currency's value.

Market risk structure

The market risk management at HBLSL comprises of,

- Local ALCO
- Country / Regional Risk
- Treasury Middle Office

Market risk strategy / Policies and scope

On the books of HBLSL, Market risk arises on account of both the structural position and the treasury activities. Since the Bank's activities are mostly of commercial / retail nature, the bulk of the market risk is carried on the banking book, which emanates from structural mismatches of the assets and liabilities to take advantage of the market yield curves. A comparatively smaller portion of market risk is also carried on Treasury's investment activities in the form of fixed income transactions.

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

37. Risk management (contd)

37.4 Market risk (contd)

Market risk strategy / Policies and scope (contd)

The bank only deals in products which are manageable and the risks within which are understandable. The bank has restrained itself from entering into transactions that are unmanageable due to lack of systems, accounting, data capturing, lack of market depth and product liquidity, personnel skills or other risks / limitations existing within the organization, local or international markets. Exceptions to this can be accommodated if the product can be managed but would require specific recommendation of Local ALCO and approval of Market Risk Management Department, Head Office Pakistan in line with instructions of Global ALCO.

HBL Sri Lanka is allowed to take market risk through mismatches of assets and liabilities. The bank may also hold fixed income securities in line with the approved limits.

Treasury Middle Office, an integral part of Risk Management, independently evaluates and monitors transactions carried out by the Bank's Treasury from a risk perspective.

Market risk management

The Market Risk Management at Bank level is handled by Country Risk Management with a view to implement robust market risk management practices which are also in compliance with CBSL's Guidelines on Integrated Risk Management Framework and Basel III Framework. The Market & Liquidity Risk Analyst assumes the day to day responsibility of the Market Risk Management including Treasury Middle Office. To analyse and monitor exposures on treasury's books, Market and Liquidity Risk Analyst works closely with the Treasury.

The Market & Liquidity Risk Analyst is responsible for analysis, monitoring and reporting of market risk exposures undertaken by the bank.

Market risk mitigation, monitoring and reporting

The Local Asset Liability Committee (ALCO) manages and monitors the Bank's ALM function in accordance with the Market Risk Policy and taking into consideration the size of the Bank, its nature of activities, domestic-international mix, personnel / other resources, system capabilities and regulatory requirements. It is responsible for oversight of the asset liability management (ALM) function at HBL Sri Lanka in line with the policy parameters included in Market Risk Policy, the overall Global Market Risk Policy of HBL, Head office, Pakistan as well as instructions of Global ALCO issued from time to time.

The Bank employs conventional methodologies for the measurement of Market risk. These are preferable compared to more complex methods, due to their operational ease and simplicity. These involve the monitoring of risk by using amount based limits and sensitivity limits. These limits are compared with the treasury activity and the outstanding position on the risk measurement date.

Global ALCO or Market Risk Management Department Head Office Pakistan as per instructions of Global ALCO, as the case may be, approves market risk limits for HBL Sri Lanka.

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

37. Risk management (contd)

37.4 Market risk (contd)

37.4.1 Interest Rate Risk

Interest rate risk is the risk that an investment's value will change due to a change in the absolute level of interest rates i.e. the spread between two rates, in the shape of the yield curve, or in any other interest rate relationship. Substantial part of the Bank's assets and liabilities are subject to floating rates hence are re-priced simultaneously. However, the Bank is exposed to interest rate risk as a result of mismatches on a relatively small part of its assets and liabilities.

Interest Rate Risk in the banking book

This is the bank's structural position and is generally held for a longer tenor. Interest rate risk exposures on Banking Book arises on account of mismatches in maturity or re-pricing of assets and liabilities. The banking book includes all Rate Sensitive Assets (RSA) and Rate Sensitive Liabilities (RSL) not categorized under the trading book. Rate Sensitive Assets and Liabilities can be defined as balance sheet items the values of which are sensitive to interest rate movements. Hence, their values can be affected favourably or adversely with changes in interest rates.

Major portion of Interest rate risk is captured under the banking book in view of the nature of activities undertaken by HBL Sri Lanka.

Interest Rate Risk Management techniques

Interest rate risk applies to both set of books i.e. trading and banking book, however HBL Sri Lanka is not taking any trading positions as matter of policy.

Gap analysis measures the differences between the RSA and RSL that mature or re-price within a time period. HBLSL uses rate sensitive gap analysis as a tool for measuring sensitivity of the Bank's RSA and RSL to interest rate variations in different time bands based on the residual term to maturity (fixed rate) or residual term for their next repricing (floating rate) as shown in Note 38.3.1.1

Interest Rate sensitivity gap analysis as at 31 December 2019

	Total Rs.	< 1 Month	1- 3 Months	3-6 Months	6 Months - 1 Year	1 Year - 2 Years	2 Years - 3 Years	3 Years - 5 Years	5 Years - 10 Years	Over 10 Years	Not exposed to interest rate risk
Financial assets											
Cash and cash equivalents	1,594,367,294	1,338,000,000	-	-	-	-	-	-	-	-	256,367,294
Balances with Central Bank of Sri Lanka	77,238,084	-	-	-	-	-	-	-	-	-	77,238,084
Reverse repurchase agreements	-	-	-	-	-	-	-	-	-	-	-
Placements with financial institutions	1,001,397,263	626,397,263	375,000,000	-	-	-	-	-	-	-	-
Government T-Bonds	2,064,276,128	-	-	-	-	-	-	633,903,404	1,430,372,724	-	-
Other financial assets	863,942,749	95,431,431	73,144,550	233,278,823	73,750,000	160,000,000	205,000,000	-	-	-	23,337,945
Gross loans and advances to customers	3,147,488,252	976,394,198	1,787,753,136	482,435	7,798,925	4,671,517	2,964,874	1,408,306	18,790,887	34,567,494	312,686,480
	8,748,719,770	3,036,222,892	2,235,897,686	233,761,258	81,548,925	164,671,517	207,964,874	635,311,710	1,449,163,611	34,567,494	669,609,803
Financial liabilities											
Due to banks	50,652,897	-	-	-	-	-	-	-	-	-	50,652,897
Due to customers	2,537,213,713	786,086,682	828,549,827	106,838,613	288,381,195	-	-	-	-	-	527,357,396
Other borrowings											
	2,587,866,610	786,086,682	828,549,827	106,838,613	288,381,195	-	-	-	-	-	578,010,293
Total Interest Rate sensitivity gap	6,160,853,161	2,250,136,210	1,407,347,859	126,922,645	(206,832,270)	164,671,517	207,964,874	635,311,710	1,449,163,611	34,567,494	91,599,510

The following table demonstrates the sensitivity of the Bank's income statement to a reasonably possible parallel shift in the interest rate yield curve, with all other variables held constant.

Increase/ (decrease) in Interest Rate	Sensitivity to profit before tax Rs.
+1%	(15,022,022)
-1%	15,722,378

HABIB BANK LIMITED - SRI LANKA BRANCH**Notes to the financial statements (contd)****37. Risk management (contd)****37.4 Market risk (contd)****37.4.1 Interest Rate Risk (contd)****Interest Rate sensitivity gap analysis as at 31 December 2018**

	Total Rs.	< 1 Month	1- 3 Months	3-6 Months	6 Months - 1 Year	1 Year - 2 Years	2 Years - 3 Years	3 Years - 5 Years	5 Years - 10 Years	Over 10 Years	Not exposed to interest rate risk
Financial assets											
Cash and cash equivalents	2,223,464,095	2,046,449,670	-	-	-	-	-	-	-	-	177,014,425
Balances with Central Bank of Sri Lanka	70,797,200	-	-	-	-	-	-	-	-	-	70,797,200
Reverse repurchase agreements	-	-	-	-	-	-	-	-	-	-	-
Placements with financial institutions	1,126,898,395	301,407,005	825,491,340	-	-	-	-	-	-	-	50
Government T-Bonds	189,972,687	-	99,929,687	-	90,043,000	-	-	-	-	-	-
Other financial assets	859,130,909	60,550,909	142,900,000	162,300,000	325,200,000	167,600,000	-	-	-	-	580,000
Gross loans and advances to customers	3,741,295,884	383,758,653	2,400,803,887	562,883	1,376,943	5,280,454	1,360,000	14,677,660	27,424,251	16,879,133	889,172,020
	8,211,559,170	2,792,166,237	3,469,124,914	162,862,883	416,619,943	172,880,454	1,360,000	14,677,660	27,424,251	16,879,133	1,137,563,695
Financial liabilities											
Due to banks	46,649,008	-	-	-	-	-	-	-	-	-	46,649,008
Due to customers	2,139,983,496	712,219,290	874,094,129	43,161,350	218,446,787	-	-	-	-	-	292,061,940
Other borrowings	-	-	-	-	-	-	-	-	-	-	-
	2,186,632,504	712,219,290	874,094,129	43,161,350	218,446,787	-	-	-	-	-	338,710,948
Total Interest Rate sensitivity gap	6,024,926,666	2,079,946,947	2,595,030,785	119,701,533	198,173,156	172,880,454	1,360,000	14,677,660	27,424,251	16,879,133	798,852,747

The following table demonstrates the sensitivity of the Bank's income statement to a reasonably possible parallel shift in the interest rate yield curve, with all other variables held constant.

Increase/(decrease) in interest rate	Sensitivity to profit before tax Rs.
+1%	(13,930,180)
-1%	14,318,439

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

37. Risk management (contd)

37.4 Market risk (contd)

37.4.2 Foreign exchange risk

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. Business line managers are concerned with the consequences of potential exchange rate movements on the domestic currency equivalent value for all foreign currency positions. The goal of foreign exchange risk management is to minimize the losses that the Bank may incur due to adverse exchange rate movements of currencies in which the Bank has an open position.

Foreign exchange risk management

Foreign exchange risk is managed by Treasury Front office. FX risk exposures on banking book arises on account of holding assets and liabilities in currencies other than the local currency. The monitoring of the Foreign Exchange Exposure Limit (FEEL) and Net Open Position are requirements of the Head Office Pakistan and Central Bank of Sri Lanka respectively, which are being complied with.

In this regard the Global ALCO specifies limits for 'international' operations. HBL Sri Lanka is not allowed to take speculative positions. HBL Sri Lanka is allowed a limit to manage commercial payments / receipts which may not be covered instantly due to size and timing and where nature of banking book requires a long term exposure / position.

	2019	2018
Position (USD)	(116,000)	(413,000)

Please refer Note 8.2 foreign currency advances and Note No 15.2 foreign currency deposits balance as at 31 December 2019.

37.5 Liquidity risk

Introduction

'Liquidity' is the ability of a bank to fund increases in assets and meet obligations as they become due, without incurring unacceptable losses. Liquidity Risk' is an integral element of banking business and its management should be an essential part of a bank's strategic management. The fundamental role of banks in the maturity transformation of short-term deposits into long-term loans makes them inherently vulnerable to liquidity risk; both of an institution specific nature and that which affects markets as a whole.

37.5.1 Liquidity risk mitigation, monitoring and reporting

Global Asset Liability Committee (Global ALCO), Head Office, Pakistan is the forum to oversee liquidity risk management in the Bank. Global ALCO has responsibility for ensuring that the 'Liquidity Risk Policy' is adhered to on a continuous basis. The Local ALCO at HBL Sri Lanka assumes country specific responsibilities of Global ALCO in relation to HBL Operations at Sri Lanka.

It is the policy of the Bank to maintain adequate liquidity at all times, and hence to be in a position in the normal course of business to meet all obligations to repay depositors, to fulfil commitments to lend, and to meet any other commitment it may have made. Of critical importance is the need to avoid liquidating assets or raising funds at unfavorable terms resulting in long term damage to earnings and reputation of the Bank.

Please refer Note 37.5.2 for maturity analysis of assets and liabilities as at 31 December 2019.

Bank maintains a minimum 25% ratio of liquid assets to total liabilities at all times.

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Notes to the financial statements (contd)

37. Risk management (contd)

37.5 Liquidity risk (contd)

37.5.2 Analysis of financial assets and liabilities by remaining contractual maturities

The table below summarizes the contractual maturity profile of the undiscounted cash flows of the Bank's financial assets and liabilities as at 31 December 2019. Balances due within 12 months are equal to their carrying value as the impact of discounting is not significant.

As at 31 December 2019	On Demand (less than 15 Days)	15 Days to 3 Months	3 Months to 12 Months	Over 1 Year	Total 2019
Assets	Rs.	Rs.	Rs.	Rs.	Rs.
Cash and cash equivalents	1,594,367,294				1,594,367,294
Balances with Central Bank of Sri Lanka	77,238,084				77,238,084
Reverse repurchase agreements Placements with financial institutions	626,397,263	375,000,000			1,001,397,263
Financial Assets- Held to Maturity				2,064,276,128	2,064,276,128
Other financial assets	95,431,431	73,144,550	307,028,823	388,337,945	863,942,749
Loans and advances to customers	897,335,201	352,885,539	277,280,026	1,365,143,394	2,892,644,160
Total financial assets	3,290,769,273	801,030,089	584,308,849	3,817,757,467	8,493,865,678
Liabilities					
Due to banks	50,652,897				50,652,897
Due to customers	1,284,938,492	857,055,414	395,219,807		2,537,213,714
Other borrowings					
Total financial liabilities	1,335,591,389	857,055,414	395,219,807		2,587,866,611
As at 31 December 2018	On Demand (less than 15 Days)	15 Days to 3 Months	3 Months to 12 Months	Over 1 Year	Total 2018
Assets	Rs.	Rs.	Rs.	Rs.	Rs.
Cash and cash equivalents	2,223,464,095	-	-	-	2,223,464,095
Balances with Central Bank of Sri Lanka	70,797,200	-	-	-	70,797,200
Reverse repurchase agreements	-	-	-	-	-
Placements with financial institutions	301,407,005	825,491,340	-	-	1,126,898,395
Financial Assets- Held to Maturity		99,929,687	90,043,000	-	189,972,687
Other financial assets	54,650,909	107,200,000	487,100,000	210,180,000	859,130,909
Loans and advances to customers	1,058,288,670	172,496,296	777,452,262	1,507,110,743	3,515,347,970
Total financial assets	3,708,607,879	1,205,117,323	1,354,595,262	1,717,290,743	7,985,611,256
Liabilities					
Due to banks	46,649,008	-	-	-	46,649,008
Due to customers	975,958,250	902,417,108	261,608,137	-	2,139,983,496
Other borrowings	-	-	-	-	-
Total financial liabilities	1,022,607,258	902,417,108	261,608,137	-	2,186,632,504

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Notes to the financial statements (contd)

37. Risk management (contd)

37.5 Liquidity risk (contd)

37.5.3 Contingency funding plan

A Contingency Funding Plan is in place for HBL Sri Lanka to evaluate magnitude of the possible liquidity crisis both specific to bank (restricted only to HBLSL) and the general crisis of the market (systemic risk). It sets out various measures in advance to deal with those situations.

37.6 Operational risk management (ORM)

Operational risk is the risk of potential inability of an organization to carry out its activities as planned. It may arise out of employee, customer or third party frauds, natural disasters, technology failures, process breakdowns, unethical business practices etc.

ORM strategy and policies

HBLSL's strategy for ORM is focused on two broad areas in coordination with HBL-HOP; 1) enhancement of ORM tools and resources, and 2) establishment of core standards for controls across the bank.

ORM at HBLSL is governed by the ORM Framework approved by HBL Head Office Pakistan for HBLSL.

ORM risk structure

The key players involved in ORM at HBLSL are:

- Chief Risk Officer through International Risk and the Operational Risk Management Division (ORMD) at HBL Head Office Pakistan
- Integrated Risk Management Committee (IRMC) at HBLSL
- Country Manager or Regional General Manager / Operational Risk Management at HBLSL
- Country Risk Manager
- Operational Risk Manager
- Business and Support Functions at HBLSL

ORM mitigation, monitoring and reporting

The ORM Mitigation tools used by HBLSL are:

- Business Continuity Management
- Insurance
- Outsourcing

The ORM is monitored by the Operational Risk Manager / IRMC at HBLSL and ORMD at Head Office Pakistan. Operational is an independent function, Operational Risk Manager directly reports to Country Risk Manager and coordinated with Head of Operational Risk at Head Office Pakistan. Loss Data is reported to CBSL on quarterly basis and to Head Office on monthly basis.

Use of insurance for the purpose of mitigating operational risk

HBLSL uses Insurance as a tool for Operational Risk Mitigation. Insurance companies are evaluated thoroughly and a complete due diligence is performed before formal insurance arrangement. Approvals from designated authorities are obtained before entering into formal insurance arrangements.

Outsourced activities

HBLSL has outsourced selective IT and non-core activities to vendors / service providers in Sri Lanka.

A complete due diligence is performed and approvals obtained for Outsourcing arrangements with Third Party Service Providers in line with Outsourcing Policy of HBLSL.

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Notes to the financial statements (contd)

37. Risk management (contd)

37.6 Operational risk management (ORM) (contd)

Contingency plan handle failure situations

HBLSL has in place a comprehensive Business Continuity and Disaster Recovery Plan to deal with contingencies. A DR Site has also been set-up to augment the Disaster Recovery Plan and ensure smooth operations subsequent to a Disaster situation.

Operational risk loss data

HBLSL has reported a total of LKR 2.166Mn as the total operational loss amount reported to CBSL for the FY 2019 & same has been fully recovered by the bank. Under Basel III HBL SL follows Basic Indicator Approach for calculating capital charge for Operational Risk.

38. Capital structure

HBLSL has not issued any capital instruments and capital is supported by Head office in the form of Assigned Capital.

Please refer Note 19 for the Assigned Capital.

39. Commitments and contingent liabilities

To meet the financial needs of customers, the bank enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to lend. Even though these obligations may not be recognized on the Statement of Financial Position, they do contain credit risk and are therefore part of the overall risk of the Bank.

39.1 Legal claims

The Company receives legal claims in the normal course of business. Management has made judgements as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is, the amount of possible outflow of economic benefits. Timing and cost ultimately depends on the due processes in respective legal jurisdictions.

39.2 During the period company recognized liability of Rs. 2,550,163 against pending legal case, "Abid Shervani vs Habib Bank Ltd" filed by ex employee for reinstatement with Back wages OR "Substantial Compensation" for termination of employment and loss of career.

40. Events after the reporting date

As instructed by the Ministry of Finance, the Department of Inland Revenue has informed that Income Tax rate of 28% will reduce to 24% with effect from 1 January 2020. Since legislation in this regard is still to be enacted, no changes have been made to the Deferred Tax Liability as at 31 December 2019, which was computed at 28%.

The existence of novel coronavirus (Covid-19) was confirmed in early 2020 from Wuhan in China, however it started to spread in Sri Lanka by the beginning of March 2020 causing disruptions to businesses and economic activities over the entire country. The Bank considers this outbreak to be a non-adjusting post balance sheet event. As the situation is fluid and rapidly evolving, the Bank does not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak on the Bank.

Other than the above, there were no events after the reporting date which requires adjustments or disclosures in the Financial Statements.

Key Regulatory Ratios - Capital and Liquidity

Item	31-Dec-19	31-Dec-18
Regulatory Capital (LKR '000)		
Common Equity Tier 1	5,743,875	5,578,403
Tier 1 Capital	5,743,875	5,578,403
Total Capital	5,824,998	5,641,497
Regulatory Capital Ratios (%)		
Common Equity Tier 1 Capital Ratio <i>(Minimum Requirement - 7%)</i>	121%	86%
Tier 1 Capital Ratio <i>(Minimum Requirement - 8.5%)</i>	121%	86%
Total Capital Ratio <i>(Minimum Requirement - 12.5%)</i>	123%	87%
Leverage Ratio <i>(Minimum Requirement - 3%)</i>	62%	58%
Regulatory Liquidity		
Statutory Liquid Assets (LKR'000)	4,920,295	2,350,490
Statutory Liquid Assets Ratio <i>(Minimum Requirement - 20%)</i>	242.34%	112.62%
Domestic Banking Unit (%)	242.34%	112.62%
Off-Shore Banking Unit (%)	31.61%	1170.34%
Liquidity Coverage Ratio (%) – Rupee <i>(Minimum Requirement - 90%)</i>	1640.00%	4945.19%
Liquidity Coverage Ratio (%) – All Currency <i>(Minimum Requirement - 90%)</i>	1509.14%	3646.21%

Basel III Computation of Capital Ratios

Item	Period 31.12.2019	Period 31.12.2018
Common Equity Tier 1 (CET1) Capital after Adjustments	5,743,875	5,578,403
Common Equity Tier 1 (CET1) Capital	5,877,926	5,659,082
Equity Capital (Stated Capital)/Assigned Capital	4,938,391	4,938,390
Reserve Fund	69,670	68,122
Published Retained Earnings/(Accumulated Retained Losses)	871,173	659,275
Published Accumulated Other Comprehensive Income (OCI)	-1,308	-6,705
General and other Disclosed Reserves		
Unpublished Current Year's Profit/Loss and Gains reflected in OCI		
Ordinary Shares issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties		
Total Adjustments to CET1 Capital	134,051	80,679
Goodwill (net)		
Intangible Assets (net)		
Deferred tax assets (net)	0	69,273
Amount due to head office & branches outside Sri Lanka in Sri Lanka Rupees	-785	-756
Amount due from head office & branches outside Sri Lanka in Foreign Currency (net)	134,836	12,162
Additional Tier 1 (AT1) Capital after Adjustments		
Additional Tier 1 (AT1) Capital		
Qualifying Additional Tier 1 Capital Instruments		
Instruments issued by Consolidated Banking and Financial Subsidiaries of the		
Bank and held by Third Parties		
Total Adjustments to AT1 Capital		
Investment in Own Shares		
Others (specify)		
Tier 2 Capital after Adjustments	81,123	63,094
Tier 2 Capital	81,123	63,094
Qualifying Tier 2 Capital Instruments		
Revaluation Gains	48,311	48,311
Loan Loss Provisions	32,812	14,783
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties		
Total Adjustments to Tier 2		
Investment in Own Shares		
Others (specify)		
CET1 Capital	5,743,875	5,578,403
Total Tier 1 Capital	5,743,875	5,578,403
Total Capital	5,824,998	5,641,497