

HABIB BANK LIMITED - SRI LANKA BRANCH

FINANCIAL STATEMENTS
31 DECEMBER 2017

HABIB BANK LIMITED - SRI LANKA BRANCH

FINANCIAL STATEMENTS - 31 DECEMBER 2017

CONTENTS

	PAGE
Independent Auditor's Report	1
Statements of financial position	2
Statement of profit or loss and other comprehensive income	3
Statement of changes in equity	4
Statements of cash flows	5
Notes to the financial statements	6 - 62



Independent Auditor's Report

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

Report on the Financial Statements

1 We have audited the accompanying financial statements of Habib Bank Limited - Sri Lanka Branch, which comprise the statement of financial position as at 31 December 2017, and the statement of profit or loss and other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information as set out in pages 6 to 62.

Management's Responsibility for the Financial Statements

2 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.

Auditor's Responsibility

3 Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control relevant to the entity's preparation of financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements.

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

Opinion

6 In our opinion the financial statements give a true and fair view of the financial position of Habib Bank Limited - Sri Lanka Branch as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

30 March 2018
COLOMBO

PricewaterhouseCoopers
CHARTERED ACCOUNTANTS

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

(all amounts in Sri Lanka Rupees)

		Year ended 31 December	
	Notes	2017	2016
Assets			
Cash and cash equivalents	4	674,753,706	1,247,248,959
Balances with Central Bank of Sri Lanka	5	1,358,716,395	1,306,270,622
Reverse repurchase agreements	6	650,388,745	300,122,805
Placements with financial institutions	7	651,419,863	209,875,028
Financial assets - held to maturity	8	488,451,406	496,843,435
Other financial assets	9	397,926,739	2,361,981,453
Loans and advances to customers	10	3,878,365,252	4,971,237,077
Other assets	11	59,889,730	106,951,182
Income tax receivable		65,203,706	48,167,386
Property, plant and equipment	12	319,121,088	228,211,703
Deferred tax assets	18	24,276,429	33,163,331
Total assets		8,568,513,059	11,310,072,981
Liabilities			
Due to banks	13	63,544,657	778,075,831
Due to customers	14	2,479,216,368	3,350,124,158
Borrowings	15	30,021,654	1,354,453,125
Other liabilities	16	44,057,215	57,766,512
Employee benefit liability	17	45,228,202	46,938,173
Total liabilities		2,662,068,096	5,587,357,799
Equity			
Assigned capital	19	4,938,390,143	4,938,390,143
Statutory reserve fund	20	68,121,518	67,859,739
Revaluation reserve	21	222,649,224	96,622,625
Exchange equalisation of capital	22	557,062,966	506,134,837
Exchange equalisation of reserve	23	10,289,766	9,871,054
Retained earnings	24	109,931,346	103,836,784
Total equity		5,906,444,963	5,722,715,182
Total liabilities and equity		8,568,513,059	11,310,072,981

Contingent liabilities and commitments	37.2.4.1	1,915,091,892	2,765,585,247
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The management is responsible for the preparation and presentation of these Financial Statements.

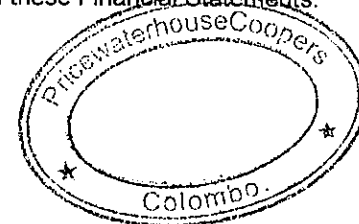
Signed for and on behalf of the management by:

Wajid Ali Shah
Regional General Manager
Sri Lanka and Maldives

Fathima Zahara Mohamed
Head of Finance

The Notes to the Financial Statements from pages 06 to 62 form an integral part of these Financial Statements.

30 March 2018
Colombo

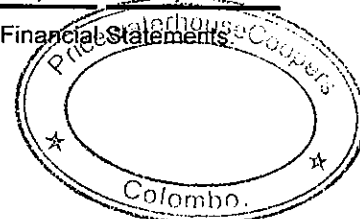


HABIB BANK LIMITED - SRI LANKA BRANCH**Statement of profit or loss and other comprehensive income**

(all amounts in Sri Lanka Rupees)

	Notes	Year ended 31 December 2017	2016
Interest income	25	654,641,151	662,190,873
Interest expense	26	(208,616,438)	(163,428,121)
Net interest income		446,024,713	498,762,752
Fees and commission income	27	23,342,382	26,144,439
Other operating income	28	56,573,784	45,570,418
Total operating income		525,940,879	570,477,609
Impairment (charge) / reversal on loans and advances	29	(66,872,640)	(14,207,418)
Net operating income		459,068,239	556,270,191
Personnel expenses	30	(237,663,098)	(250,355,011)
Depreciation of property plant and equipment	12	(45,630,950)	(43,725,660)
Other operating expenses	31	(122,276,885)	(110,890,300)
Total operating expenses		(405,570,933)	(404,970,970)
Operating profit before Value Added Tax (VAT) on financial services		53,497,306	151,299,221
Value Added Tax (VAT) on financial services		(37,020,805)	(45,469,170)
Profit before income tax		16,476,501	105,830,051
Income tax (expense) / reversal for the year	32	(11,240,916)	5,023,831
Profit for the year		5,235,585	110,853,882
Other comprehensive income			
Other comprehensive income not to be reclassified to profit and loss in subsequent periods			
Actuarial (loss) / gain on retirement benefit obligation	17	1,556,606	(1,951,838)
Revaluation of land and buildings	12	121,600,000	-
Exchange differences on translation of foreign currency capital	22	50,928,129	95,372,593
Exchange differences on translations of foreign currency reserves	23	418,712	1,700,671
Income tax on other comprehensive income	32	(3,489,250)	546,515
Other comprehensive income for the year net of tax		171,014,197	95,667,941
Total comprehensive income for the year		176,249,782	206,521,822

The Notes to the Financial Statements from pages 06 to 62 form an integral part of these Financial Statements.

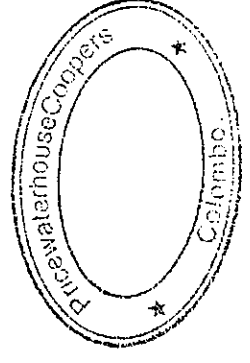


HABIB BANK LIMITED - SRI LANKA BRANCH**Statement of changes in equity**

(all amounts in Sri Lanka Rupees)

	Notes	Assigned capital	Statutory reserve fund	Revaluation reserve	Exchange equalisation of capital	Exchange equalisation of reserve	Retained earnings	Total
As at 01 January 2016		4,938,390,143	62,317,045	96,622,625	410,762,244	8,170,383	(69,081)	5,516,193,359
Profit for the year	24	-	-	-	-	-	110,853,882	110,853,882
Other comprehensive income	21/22/23/24	-	-	-	95,372,593	1,700,671	(1,405,323)	95,667,940
Transfer to statutory reserve fund	20/24	-	5,542,694	-	-	-	(5,542,694)	-
As at 31 December 2016		4,938,390,143	67,859,739	96,622,625	506,134,837	9,871,054	103,836,784	5,722,715,181
Profit for the year	24	-	-	-	-	-	5,235,585	5,235,585
Other comprehensive income	21/22/23/24	-	-	126,026,599	50,928,129	418,712	1,120,756	178,494,197
Transfer to statutory reserve fund	20/24	-	261,779	-	-	-	(261,779)	-
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

The Notes to the Financial Statements from pages 06 to 62 form an integral part of these Financial Statements.



HABIB BANK LIMITED - SRI LANKA BRANCH**Cash flow statement**

(all amounts in Sri Lanka Rupees)

	Note	Year ended 31 December	
		2017	2016
Cash flows from operating activities			
Net cash flow from operating activities before income tax and changes in operating assets and liabilities (A)		135,847,526	170,177,814
Income tax paid		-	(12,663,727)
Operating profit before changes in operating assets and liabilities		135,847,526	157,514,087
Decrease in operating assets	33.1	2,230,817,020	(1,614,089,662)
Increase / (decrease) in operating liabilities	33.2	(2,249,155,665)	1,493,668,558
Net cash flow from operating activities		117,508,881	37,092,983
Cash flows from investing activities			
Purchase of property plant and equipment	12.5	(7,460,334)	(15,468,014)
Dividends received	28	1,563,750	558,000
Proceeds from sale of property plant and equipment		5,000	74,325
		(5,891,584)	(14,835,689)
Cash flow from financing activities			
Funds received from Head Office	19	-	-
Exchange differences on translations of foreign currency capital and reserves	22/23	51,346,841	97,073,263
Net increase / (decrease) in cash and cash equivalents		162,964,138	119,330,557
Cash and cash equivalents at the beginning of the year		1,870,505,963	1,751,175,406
Cash and cash equivalents at the end of the year		2,033,470,101	1,870,505,963
Reconciliation of cash and cash equivalents			
Cash in hand	4	53,551,917	96,639,491
Balances with banks	4	621,201,789	1,102,590,982
Money at call and short notice	4	-	48,018,486
Statutory deposit with Central Bank of Sri Lanka	5	162,222,177	135,532,640
Money held at Central Bank of Sri Lanka - foreign currency	5	1,196,494,218	1,170,737,982
Due to banks	13	-	(683,013,618)
		2,033,470,101	1,870,505,963
A. Reconciliation of operating profit			
Profit / (loss) before tax		16,476,501	105,830,051
Gain on disposal of property, plant and equipment		(5,000)	(49,533)
Depreciation of property plant and equipment	12.2	45,630,949	43,725,660
Impairment charge/(reversal) for loans and advances	29	66,872,640	14,207,418
Dividend income	28	(1,563,750)	(558,000)
Gratuity expense		8,436,186	7,022,219
Net cash flow from operating activities before income tax and changes in operating assets and liabilities (A)		135,847,526	170,177,814

The Notes to the Financial Statements from pages 06 to 62 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 2017 were authorized for issue by the local management on 29 March 2018.

2 Summary of significant accounting policies

2.1 Basis of preparation

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.

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

2.1.1 Statement of compliance

The financial statements of the Bank have been prepared in accordance with Sri Lanka Accounting Standards which comprise Sri Lanka Financial Reporting Standards ("SLFRS"s), Sri Lanka Accounting Standards ("LKAS"s), relevant interpretations of the Standing Interpretations Committee ("SIC") and International Financial Reporting Interpretations Committee ("IFRIC").

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

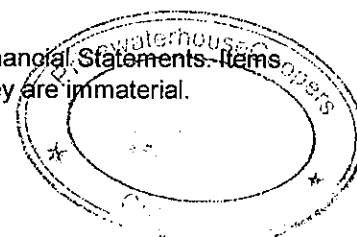
The presentation of these financial statements is in compliance with the requirements of the Banking Act No. 30 of 1988.

2.1.2 Presentation of financial statements

The financial statements are presented in Sri Lankan Rupees, which is the Branch's presentation and functional currency. The items in the financial statements are measured using the currency of the primary economic environment in which the Branch operates (the functional currency).

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.



HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.1.2 Presentation of financial statements (contd)

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.

2.1.3 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year.

2.1.4 Going concern

The management has made an assessment of the bank's ability to continue as a going concern and is satisfied that it has resources to continue its operations in the foreseeable future. Therefore, the financial statements are continued to be prepared on going concern basis.

2.2 Significant accounting judgements, estimates and assumptions

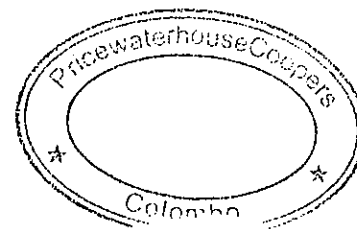
In the process of applying the Bank's accounting policies, management has exercised judgement and estimates in determining the amounts recognised in the financial statements. Use of available information, estimates and assumptions and application of judgement is inherent in the preparation of financial 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, in groups of assets with similar characteristics, to determine whether provision should be made based on incurred loss events for which there is objective evidence, but the effects of which are not yet evident. The collective assessment takes account of data from the loan portfolio such as levels of arrears, credit utilisation, loan-to-collateral ratios, etc. and judgements on the effect of concentrations of risks and economic data (including levels of unemployment, inflation, GDP growth rate etc.).

The impairment loss on loans and advances is disclosed in more detail in Note 2.3.4 and Note 10 to the financial statements.



HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.2 Summary of significant accounting policies (contd)

2.2.2 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.

2.2.3 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.

2.2.4 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.

2.2.5 Deferred tax assets

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 2.3.12 and Note 18 to the financial statements.

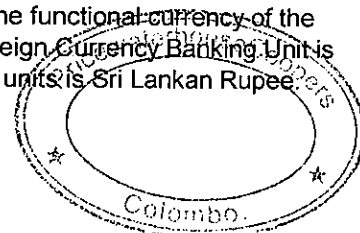
2.3 Summary of significant accounting policies

2.3.1 Foreign currency translation

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.

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.



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)

2.3.1 Foreign currency translation (contd)

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.

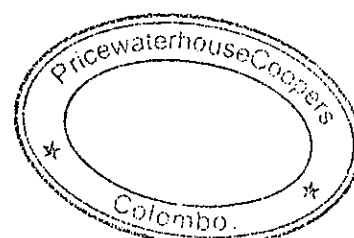
All assets and liabilities for which fair value is measured or disclosed in the Financial Statements are categorised within the fair value hierarchy, as described below:

Level 1	Quoted (unadjusted) market prices in active markets for identical assets or
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.

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.



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)

2.3.3 Financial Instruments – Initial recognition and subsequent measurement

(i) Date of recognition

All financial assets and liabilities are initially recognized 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.

(ii) Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial instruments are measured initially at its fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

(iii) Derivatives recorded at fair value through profit or loss

The Bank uses derivatives such as Forward Foreign Exchange Contracts. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in 'Net Trading Income' in the Income Statement.

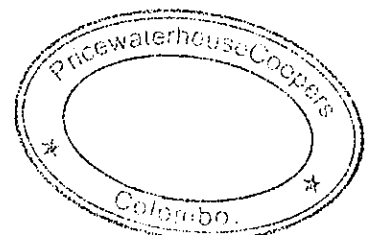
(iv) Financial assets - subsequent measurement

The subsequent measurement of financial assets depends on their classification. The Bank's financial assets comprise of Held to Maturity Financial Assets and Other Financial Assets and Loans and Advances to Customers which are classified as Loans and Receivables.

(a) Financial assets - held to maturity

Held to maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the bank has the intention and ability to hold to maturity. After initial measurement, held to maturity financial investments are subsequently measured at amortized cost using the Effective interest Rate (EIR), less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in "Interest Income" in the income statement.

If the Bank were to sell or reclassify more than an insignificant amount of held to maturity assets before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available for sale. Furthermore, the Bank would be prohibited from classifying any financial asset as held to maturity during the following two years under LKAS 39.



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)

2.3.3 Financial Instruments – Initial recognition and subsequent measurement (contd)

(b) Other Financial Assets and Loans and Advances to Customers

"Other Financial Assets" and "Loans and Advances" to customers' include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

After initial measurement, "Other Financial Assets" and "Loans and Advances to Customers" are subsequently measured at amortized cost using the effective interest rate, less allowance for impairment. Amortized cost is calculated taking in to account any fees and costs that are integral part of the EIR. The amortization is included in the "Interest Income" in the Income Statement. The losses arising from impairment are recognized in the Income Statement in "Impairment Charge".

(V) 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.

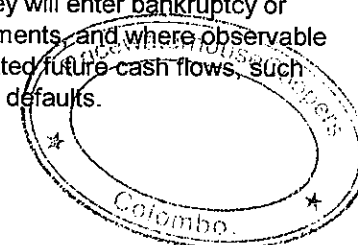
Borrowings / Other financial liabilities

After initial measurement, Other 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.

2.3.4 Impairment of financial assets

The Bank assesses, at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets are impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation, default in interest or principal payments, and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.



HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.3.4 Impairment of financial assets (contd)

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Bank first assesses individually whether objective evidence of impairment exists for financial assets. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Comprehensive Income.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is recognised in the other operating income in the Statement of comprehensive income.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the interest rate prevailed at the last reprising date.

Refer Note 10 to the financial statements for details of impairment losses on financial assets carried at amortised cost.

2.3.5 Derecognition of financial assets and financial Liabilities

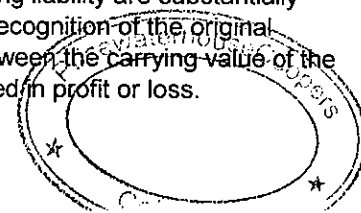
(i) Financial assets

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

(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 derecognition 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.



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)

2.3.6 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.

2.3.7 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.

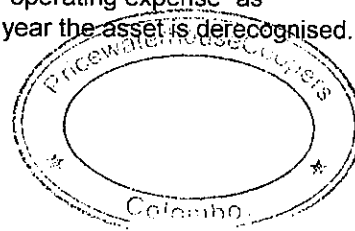
Land and buildings are measured at fair value, less accumulated depreciation on buildings, and impairment losses recognised at the date of revaluation. Valuations are performed with sufficient frequency to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

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. The estimated useful lives are as follows,

Freehold buildings	20 Years
Leasehold buildings	Over the period of lease
Motor vehicles	5 Years
Furniture, fixtures and fittings	5 Years
Computer equipment	5 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 derecognition 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.



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 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.

2.3.9 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.

2.3.10 Employee benefit liability

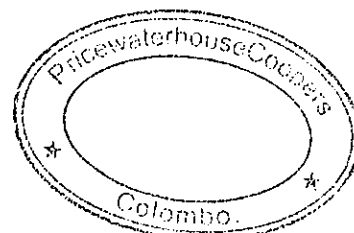
(a) Defined benefit plan - gratuity

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 2017 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.



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)

2.3.11 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.

2.3.12 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.

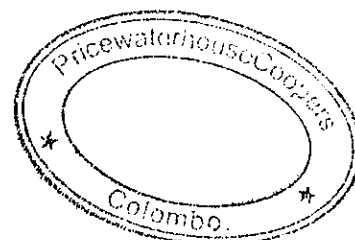
The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

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. (2016- 15% between 2 May to 10 July 2016 and 1 November to 31 December 2016, and 11% for the remaining period).



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)

Nation Building Tax on Value Added Tax (VAT) 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'.

Crop insurance levy

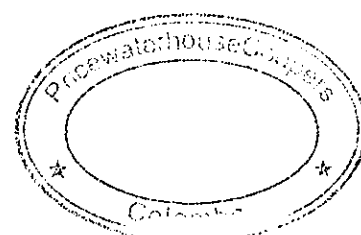
During the year, Bank was subjected to Crop Insurance Levy which is payable as 1% of profit after tax payable to the National Insurance Trust Board effective from 01 April 2013.

2.3.13 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.

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 impairment loss.



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)

2.3.13 Revenue recognition (contd)

Interest income and expenses (contd)

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.

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 two 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. These fees include commission income.

(ii) Fee income from Providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction.

(iii) Net trading income

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

(iv) Dividend income

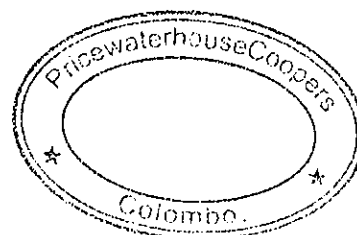
Dividend income is recognised when the Bank's right to receive the payment is established.

(v) Other income

Other income is recognised on an accrual basis.

(vi) 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)

2.3.14 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 recognized 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 unutilized credit facilities granted to customers where the Bank reserves the right to unconditionally cancel or recall the facility at its discretion.

2.3.15 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 gross cash receipts and gross cash payments of operating activities, financing activities and investing activities have been recognised. Cash and Cash Equivalents mainly comprise of cash balances, placements, balances with Central Bank of Sri Lanka, highly liquid investments of which original maturity of 3 months or less and net of any amount due from banks.

2.3.16 New standards and amendments – applicable 1 January 2017

The following standards and interpretations apply for the first time to financial reporting periods commencing on or after 1 January 2017:

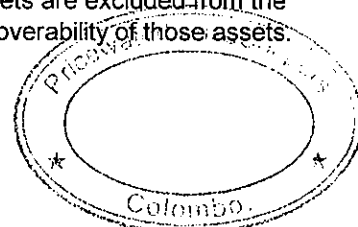
(i) Amendments to LKAS 12 - Recognition of Deferred Tax Assets for Unrealised Losses

Amendments made to LKAS 12 clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. Specifically, the amendments confirm that:

- (i) A temporary difference exists whenever the carrying amount of an asset is less than its tax base at the end of the reporting period.
- (ii) An entity can assume that it will recover an amount higher than the carrying amount of an asset to estimate its future taxable profit.
- (iii) Where the tax law restricts the source of taxable profits against which particular types of deferred tax assets can be recovered, the recoverability of the deferred tax assets can only be assessed in combination with other deferred tax assets of the same type.

(iv)

Tax deductions resulting from the reversal of deferred tax assets are excluded from the estimated future taxable profit that is used to evaluate the recoverability of those assets.



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 *New standards and amendments – applicable 1 January 2017 (contd)*

(ii) *Amendments to LKAS 7 - Disclosure Initiative*

An entities will be required to explain changes in their liabilities arising from financing activities. This includes changes arising from cash flows (eg drawdowns and repayments of borrowings) and non-cash changes such as acquisitions, disposals, accretion of interest and unrealised exchange differences.

Changes in financial assets must be included in this disclosure if the cash flows were, or will be, included in cash flows from financing activities. This could be the case, for example, for assets that hedge liabilities arising from financing liabilities.

Entities may include changes in other items as part of this disclosure, for example by providing a 'net debt' reconciliation. However, in this case the changes in the other items must be disclosed separately from the changes in liabilities arising from financing activities.

(iii) *Amendments to SLFRS 12 'Disclosure of interests in other entities' regarding clarification of the scope of the standard.*

The amendments clarify that the disclosure requirements of SLFRS 12 apply to interests in entities that are classified as held for sale, except for the summarised financial information.

2.3.17 *New standards and amendments effective after 1 January 2018*

(i) *SLFRS 9 Financial Instruments and associated amendments to various other standards*

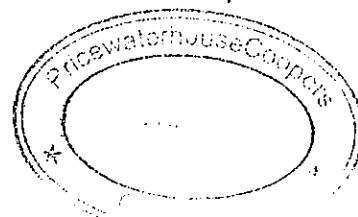
SLFRS 9 replaces the multiple classification and measurement models in LKAS 39 Financial instruments: Recognition and measurement with a single model that has initially only two classification categories: amortised cost and fair value.

Classification of debt assets will be driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. A debt instrument is measured at amortised cost if: a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and b) the contractual cash flows under the instrument solely represent payments of principal and interest.

All other debt and equity instruments, including investments in complex debt instruments and equity investments, must be recognised at fair value.

All fair value movements on financial assets are taken through the statement of profit or loss, except for equity investments that are not held for trading, which may be recorded in the statement of profit or loss or in reserves (without subsequent recycling to profit or loss).

For financial liabilities that are measured under the fair value option entities will need to recognise the part of the fair value change that is due to changes in the their own credit risk in other comprehensive income rather than profit or loss.



HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.3.17 New standards and amendments effective after 1 January 2018 (contd)

(i) SLFRS 9 Financial Instruments and associated amendments to various other standards (contd)

The new hedge accounting rules align hedge accounting more closely with common risk management practices. As a general rule, it will be easier to apply hedge accounting going forward. The new standard also introduces expanded disclosure requirements and changes in presentation.

Further changes introduced to the classification and measurement rules and also introduced a new impairment model to SLFRS 9. The changes introduce:

- i. a third measurement category (FVOCI) for certain financial assets that are debt instruments
- ii. a new expected credit loss (ECL) model which involves a three-stage approach whereby financial assets move through the three stages as their credit quality changes. The stage dictates how an entity measures impairment losses and applies the effective interest rate method. A simplified approach is permitted for financial assets that do not have a significant financing component (eg trade receivables). On initial recognition, entities will record a day-1 loss equal to the 12 month ECL (or lifetime ECL for trade receivables), unless the assets are considered credit impaired.

The Bank is currently in the process of assessing the additional loan loss provision impact on the financial statements as well as the capital adequacy ratio.

Amendments to SLFRS 9 Financial Instruments - Prepayment Features with Negative Compensation

This amendment confirm that when a financial liability measured at amortised cost is modified without this resulting in de-recognition, a gain or loss should be recognised immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This means that the difference cannot be spread over the remaining life of the instrument which may be a change in practice from LKAS 39.

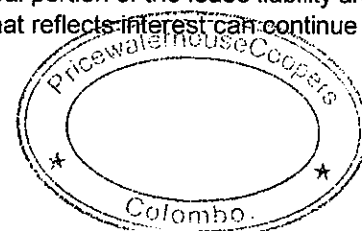
The amendment is effective for annual periods beginning on or after 1 January 2019.

(ii) SLFRS 16 Leases

SLFRS 16 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 income statement 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.



HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 *Summary of significant accounting policies (contd)*

2.3.17 New standards and amendments effective after 1 January 2018 (contd)

(ii) SLFRS 16 Leases (Contd)

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 annual periods beginning on or after 1 January 2019 with earlier application permitted if SLFRS 15, 'Revenue from Contracts with Customers', is also applied.

(iii) SLFRS 15 Revenue from contracts with customers and associated amendments to various other standards

SLFRS 15 will replace LKAS 18 which covers contracts for goods and services and LKAS 11 which covers construction contracts.

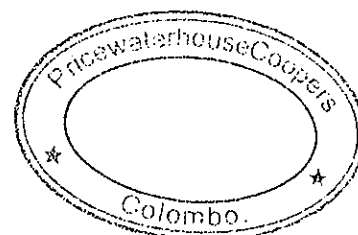
The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

A new five-step process is applied before revenue can be recognised:

- Identify contracts with customers
- Identify the separate performance obligations
- Determine the transaction price of the contract;
- Allocate the transaction price to each of the separate performance obligations; and
- Recognise the revenue as each performance obligation is satisfied.

Key changes to current practice are:

- i. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements.
- ii. Revenue may be recognised earlier than under current standards if the consideration varies for any reasons (such as for incentives, rebates, performance fees, royalties, success of an outcome etc) – minimum amounts must be recognised if they are not at significant risk of reversal.
- iii. The point at which revenue is able to be recognised may shift: some revenue which is currently recognised at a point in time at the end of a contract may have to be recognised over the contract term and vice versa.
- iv. There are new specific rules on licenses, warranties, non-refundable upfront fees and, consignment arrangements, to name a few.
- v. There are also increased disclosures.



HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 *Summary of significant accounting policies (contd)*

2.3.17 New standards and amendments effective after 1 January 2018 (contd)

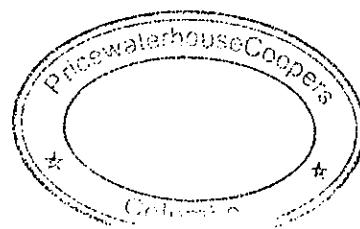
These accounting changes may have flow-on effects on the entity's business practices regarding systems, processes and controls, compensation and bonus plans, contracts, tax planning and investor communications.

Entities will have a choice of full retrospective application, or prospective application with additional disclosures.

Amendments to SLFRS 15, 'Revenue from contracts with customers'

These amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation permitted).

The standard and the amendment is effective for the annual periods beginning on or after 1 January 2018.



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

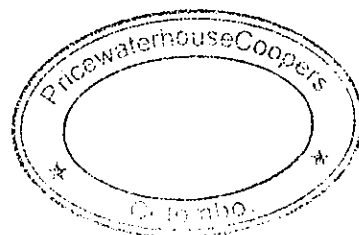
(all amounts in Sri Lanka Rupees)

3. Analysis of financial instruments by measurement basis

	2017	2016
Assets		
Loans and receivables at amortised cost		
Cash and cash equivalents	674,753,706	1,247,248,959
Balances with Central Bank of Sri Lanka	1,358,716,395	1,306,270,622
Reverse repurchase agreements	650,388,745	300,122,805
Placement with financial institution	651,419,863	209,875,028
Other financial assets	397,926,739	2,361,981,453
Loans and advances to customers	3,878,365,252	4,971,237,077
Total loans and receivables at amortised cost	7,611,570,700	10,396,735,945
Held to maturity investments		
Financial assets - held to maturity	488,451,406	496,843,435
Total financial assets	8,100,022,106	10,893,579,379
	2017	2016
Liabilities		
Financial liabilities at amortised cost		
Due to banks	63,544,657	778,075,831
Due to customers	2,479,216,368	3,350,124,158
Other borrowings	30,021,654	1,354,453,125
Total financial liabilities	2,572,782,679	5,482,653,114

4. Cash and cash equivalents

	2017	2016
Cash in Hand - local currency	52,916,145	96,377,278
Cash in Hand - foreign currency (United States Dollar)	635,772	262,213
Balances with banks	621,201,789	1,102,590,982
Money at call and short notice	-	48,018,486
	674,753,706	1,247,248,959



HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

(all amounts in Sri Lanka Rupees)

5. Balances with central bank of Sri Lanka

	2017	2016
Statutory Deposit with Central Bank of Sri Lanka [Note 5.1]	162,222,177	135,532,640
Money held at Central Bank of Sri Lanka in United States Dollars [Note 5.2]	1,196,494,218	1,170,737,982
	1,358,716,395	1,306,270,622

- 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 2017, the minimum cash reserve requirement was 7.5 % (2016 -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.

6. Reverse repurchase agreements

	2017	2016
Due from Banks	650,388,745	300,122,805
	650,388,745	300,122,805

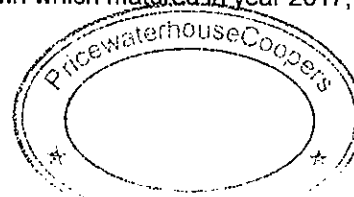
The balance as at 31 December 2017 represents the investments in Reverse Repurchases Agreements with Central Bank of Sri Lanka.

7. Placements with financial institutions

	2017	2016
Wakala placements	-	209,875,028
Other Placements with Financial Institutions	651,419,863	-
	651,419,863	209,875,028

The balance as at 31 December 2017 represents placement with Nations Trust Bank amounting to Rs. 200 Mn, Union Bank amounting to Rs. 250 Mn and Seylan Bank amounting to LKR 200 Mn, along with interest receivable.

The balance as at 31 December 2016 represents placement with Richard Pieris and Company PLC amounting to Rs. LKR 107.87 Mn and LOLC Finance PLC Rs. 100 Mn which matured in year 2017, along with interest receivable.



HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

(all amounts in Sri Lanka Rupees)

8. Financial assets - held to maturity

	2017	2016
Government treasury bills	488,451,406	496,843,435
	488,451,406	496,843,435

9. Other financial assets

	2017	2016
Sri Lanka Development Bonds [Note 9.1]	-	1,221,177,781
Trust Certificates [Note 9.2]	146,798,794	835,367,805
Debentures [Note 9.3]	250,547,945	304,855,867
Unquoted Investments [Note 9.4]	580,000	580,000
	397,926,739	2,361,981,453

9.1 Sri Lanka Development Bonds

The investment in Sri Lanka Development Bonds amounting to USD 8 Mn were matured in year 2017.

9.2 Trust certificates

The above balance represents investment in trust certificates of Peoples Leasing Company PLC amounting to Rs. 121.6 Mn, which mature in year 2018 (Rs. 110.1 Mn) and 2019 (Rs. 11.5 Mn). [(2016 - trust certificates of Peoples Leasing Company PLC Rs. 787.3 Mn which mature in year 2017 (Rs. 665.7 Mn), 2018 (Rs. 110.1 Mn) and 2019 (Rs. 11.5 Mn)].

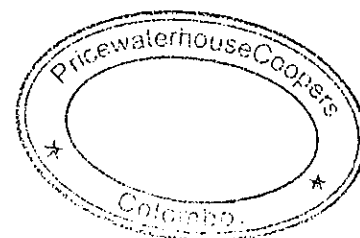
9.3 Debentures

The above balance represents investment in debentures of Seylan Bank PLC Rs. 250 Mn (2017 -Rs. 250 Mn) which will mature in year 2018.

9.4 Unquoted Investments

	2017	2016
Lanka Clear (Private) Limited (50,000 ordinary shares of Rs. 10/- each)	500,000	500,000
Credit Information Bureau of Sri Lanka (800 ordinary shares of Rs. 100/- each)	80,000	80,000
	580,000	580,000

Management's valuation of investments in unquoted share investment amounts to Rs. 580,000/- and has been determined assuming that the cost to be fairly representative of it's fair value.



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

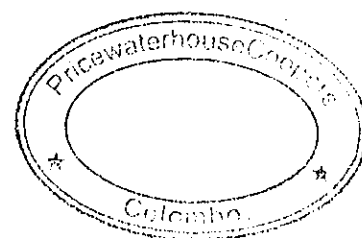
(all amounts in Sri Lanka Rupees)

10. Loans and advances to customers

	2017	2016
Gross loans and receivables	4,001,197,474	5,027,061,530
Less:		
Individual impairment [Note 10.3.1]	(105,516,067)	(34,338,005)
Collective impairment [Note 10.3.2]	(17,316,155)	(21,486,448)
Net loans and receivables [Note 10.1]	<u>3,878,365,252</u>	<u>4,971,237,077</u>

10.1 Gross loans and advances by product

	2017	2016
Term loans	2,111,230,536	1,563,718,924
Overdraft	1,280,471,623	1,927,195,184
Consumer loans	-	-
Short term loans	432,044,068	958,561,508
Trade finance loans	126,097,955	527,460,946
	<u>3,949,844,182</u>	<u>4,976,936,563</u>
Allowance for impairment losses [Note 10.3]	<u>(122,832,222)</u>	<u>(55,824,453)</u>
	<u>3,827,011,960</u>	<u>4,921,112,110</u>
Staff loans	64,393,365	63,890,095
Less : Allowance for Day 1 Difference	<u>(13,040,073)</u>	<u>(13,765,128)</u>
	<u>51,353,292</u>	<u>50,124,967</u>
	<u>3,878,365,252</u>	<u>4,971,237,077</u>



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

(all amounts in Sri Lanka Rupees)

10. Loans and advances to customers (contd)**10.2 Gross loans and advances by currency**

	2017	2016
Local currency - Sri Lankan Rupees	2,752,051,581	2,629,568,760
Foreign currency	1,126,313,671	2,341,668,317
	3,878,365,252	4,971,237,077

10.3 Impairment allowance for loans and advances to customers

	2017	2016
Balance as at 1 January	55,824,453	43,235,086
Impairment charge / (reversal) during the year	71,292,769	14,207,418
Balance written off during the year	(4,420,129)	(1,945,812)
Exchange Impact on revaluation of foreign currency Impairment	135,129	327,761
Balance as at 31 December	122,832,222	55,824,453

10.3.1 Movement in individual impairment allowance for loans and advances

	2017	2016
Impairment - as at 1 January	34,338,005	26,806,700
Impairment charge / (reversal) during the year	71,292,769	9,477,120
Balance written off during the year	(114,707)	(1,945,812)
Exchange Impact on revaluation of foreign currency Impairment	-	(3)
Impairment - as at 31 December	105,516,067	34,338,005

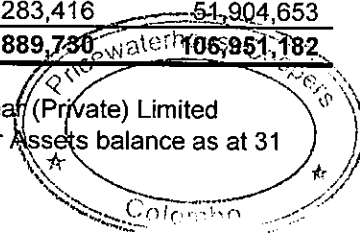
10.3.2 Movement in collective impairment allowance for loans and advances

	2017	2016
Impairment - as at 01 January	21,486,448	16,428,386
Net impairment charge for the year	(4,305,422)	4,730,298
Exchange Impact on revaluation of foreign currency Impairment	135,129	327,764
Impairment - as at 31 December	17,316,155	21,486,448

11. Other assets

	2017	2016
Deposits and prepayments	31,566,241	41,281,401
Unamortised staff cost	13,040,073	13,765,128
Other assets*	15,283,416	51,904,653
	59,889,730	106,951,182

*Inward and Outward net cheque clearing balance to be settled by the Lanka Clear (Private) Limited amounting to Rs. 15,115,851/- (2016- Rs. 42,690,242/-) is included in the Other Assets balance as at 31 December 2017.



HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

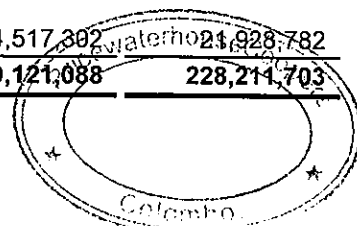
(all amounts in Sri Lanka Rupees)

12. Property, plant and equipment

12.1 Gross carrying amounts	Balance As at 01.01.2017	Additions/ Revaluation	Disposals/ Transfers and Write-offs	Balance As at 31.12.2017
At cost / revaluation				
Freehold land	65,200,000	118,175,000	-	183,375,000
Freehold building	52,905,477	3,425,000	-	56,330,477
Motor vehicles	23,250,000	-	-	23,250,000
Computer, furniture and fittings	178,451,014	7,460,334	(871,650)	185,039,698
	319,806,491	129,060,334	(871,650)	447,995,175
Leasehold building improvements	45,968,454	-	-	45,968,454
	45,968,454	-	-	45,968,454
Total gross carrying amount	365,774,945	129,060,334	(871,650)	493,963,629

12.2 Accumulated depreciation	Balance As at 01.01.2017	Charge for the year	Disposals/ Transfers and Write-offs	Balance As at 31.12.2017
At cost / revaluation				
Freehold building	5,504,570	2,798,074	(7,480,000)	822,644
Motor vehicles	16,750,000	4,650,000	-	21,400,000
Computer, furniture and fittings	91,269,000	30,771,395	(871,650)	121,168,745
	113,523,570	38,219,469	(8,351,650)	143,391,389
Leasehold building improvements	24,039,672	7,411,480	-	31,451,152
	24,039,672	7,411,480	-	31,451,152
Total accumulated depreciation	137,563,242	45,630,949	(8,351,650)	174,842,541

12.3 Net book values	2017 Rs.	2016 Rs.
At cost / revaluation		
Freehold land	183,375,000	65,200,000
Freehold building	55,507,833	47,400,907
Motor vehicles	1,850,000	6,500,000
Computer, furniture and fittings	63,870,953	87,182,014
	304,603,786	206,282,921
Leasehold building improvements	14,517,302	21,928,782
Total carrying amount of property, plant and equipment	319,121,088	228,211,703



HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

(all amounts in Sri Lanka Rupees)

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 03 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

	2017
	Rs.
As at 01 January 2017	118,105,477
Additions during the year	-
Transfer of depreciation related to revalued building	(7,480,000)
Level 3 revaluation recognised based on the valuation	129,080,000
As at 31 December 2017	239,705,477

12.5 During the financial year, the Bank acquired Property, plant and equipment to the aggregate value of Rs 7,460,334 (2016- Rs.15,468,014). Cash payments amounting to Rs 7,460,334 (2016- Rs.15,468,014) 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. 35,727,117 (2016 - Rs. 46,556,804).

13. Due to banks

	2017	2016
Bank overdrafts	-	683,013,618
Deposits from other banks	63,544,657	95,062,213
	63,544,657	778,075,831

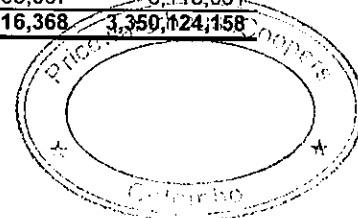
14. Due to customers

14.1 Due to customers - by products

	2017	2016
Demand deposits	357,902,988	586,845,430
Savings deposits	657,354,699	820,163,928
Time deposits	1,375,908,001	1,762,845,972
Call deposits	80,422,431	170,181,082
Margin balances	7,628,249	10,087,746
	2,479,216,368	3,350,124,158

14.2 Due to customers - by currency

Local currency - Sri Lankan Rupees	2,029,067,105	2,276,023,782
Foreign currency - United States Dollar	44,183,256	1,067,987,315
Foreign currency - others	405,966,007	6,113,061
	2,479,216,368	3,350,124,158



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

(all amounts in Sri Lanka Rupees)

15. Other borrowings

	2017	2016
15.1 Short term loans		
Central Bank of Sri Lanka - Repo Borrowings	30,021,654	-
Habib Bank Limited - KEPZ	-	752,218,750
Habib Bank Limited - Karachi	-	602,234,375
	30,021,654	1,354,453,125

16. Other liabilities

	2017	2016
Accrued expenses	28,707,563	34,046,207
Bills payable	13,089,752	22,956,284
Other liabilities	2,259,900	764,021
	44,057,215	57,766,512

17. Employee benefit liability

	2017	2016
As at 1 January	46,938,173	41,103,395
Current service cost	3,272,987	2,911,880
Interest cost	5,163,199	4,110,339
Actuarial gains on retirement benefit obligation	(1,556,606)	1,951,838
(-) Payments during the year	(8,589,551)	(2,979,864)
(-) Gratuity payable to those who left during the period	-	(159,415)
As at 31 December	45,228,202	46,938,173

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 2017, carried out by Messrs Actuarial and Management Consultants (Private) Limited, actuaries.

The key assumptions used by the management include the following,	2017	2016
Rate of interest	10.5%	11%
Rate of salary increase	10%	11%
Retirement age	55 Years	55 Years
Average future working life of employees	9.06 Years	7.32 Years

17.2 Net benefit expense categorised under personnel expenses,

	2017	2016
Current service cost	3,272,987	2,911,880
Interest cost	5,163,199	4,110,339
	8,436,186	7,022,219

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

(all amounts in Sri Lanka Rupees)

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;

	2017	2016
1% increase in discount rate	(1,859,789)	(1,700,516)
1% decrease in discount rate	2,030,267	1,834,354
1% increase in salary escalation rate	2,103,723	1,919,234
1% decrease in salary escalation rate	(1,960,816)	(1,811,255)

18. Deferred tax asset

	2017	2016
As at 1 January	33,163,331	28,648,249
Charge during the Year	(8,886,902)	4,515,082
As at 31 December	24,276,429	33,163,331

18.1.1 Deferred tax liabilities

Accelerated depreciation allowance for tax purposes -	(9,167,108)	(13,783,930)
Property plant and equipment		
Revaluation of property plant and equipment	(15,251,698)	(12,198,299)
	<u>(24,418,806)</u>	<u>(25,982,229)</u>

18.1.2 Deferred tax assets

Employee benefit liability - gratuity	12,663,896	13,142,688
Loan impairment	4,848,523	6,016,206
Tax losses	31,182,816	39,986,666
	<u>48,695,235</u>	<u>59,145,560</u>

Net deferred tax asset	24,276,429	33,163,331
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Deferred tax has been determined based on the effective tax rate of 28% (2016 - 28%).

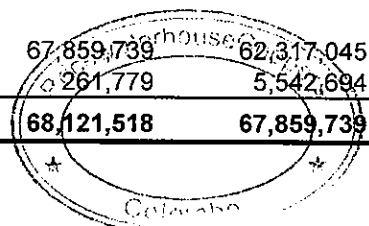
19. Assigned capital

	2017	2016
As at 1 January	4,938,390,143	4,938,390,143
Received from Head Office during the Year	-	-
Capitalisation of retained earnings during the year (Note 24)	-	-
As at 31 December	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

	2017	2016
As at 1 January	67,859,739	62,317,045
Transfer from the profits during the year [Note 24]	261,779	5,542,694
As at 31 December	68,121,518	67,859,739



HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

(all amounts in Sri Lanka Rupees)

20. Statutory reserve fund (contd)

- 20.1** 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.

21. Revaluation reserve

	2017	2016
As at 1 January	96,622,625	96,622,625
Revaluation of land and building net of deferred tax	126,026,599	-
As at 31 December	222,649,225	96,622,625

22. Exchange equalisation of capital

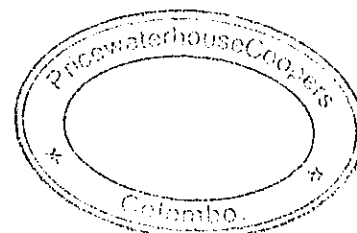
	2017	2016
As at 01 January	506,134,837	410,762,244
Exchange Differences on translations of Foreign Currency Capital	50,928,129	95,372,593
As at 31 December	557,062,966	506,134,837

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.

23. Exchange equalisation of reserves

	2017	2016
As at 01 January	9,871,054	8,170,384
Exchange differences on translations of foreign currency reserves	418,712	1,700,670
As at 31 December	10,289,766	9,871,054

Exchange Equalisation of Reserve represents the effect of currency translation of Retained Earnings and Statutory Reserve Fund maintained in Foreign Currency Banking Unit due to exchange rate fluctuations.



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

(all amounts in Sri Lanka Rupees)

24. Retained earnings / (loss)

	2017	2016
As at 1 January	103,836,784	(69,081)
Profit for the Year	5,235,584	110,853,882
Other comprehensive Income for the Year	1,120,756	(1,405,323)
Transfers to statutory reserve fund [Note 19]	(261,779)	(5,542,694)
Profit capitalisation during the year [Note 18]	-	-
As at 31 December	109,931,346	103,836,784

25. Interest income

	2017	2016
Placements with Banks	45,282,012	34,021,350
Reverse repurchase agreements	27,243,595	1,499,449
Financial Assets - Held to Maturity	49,746,197	34,216,401
Other financial assets	93,214,636	194,347,294
Loans and Advances to Customers	439,154,711	398,106,379
	654,641,151	662,190,873

Interest Income earned from Government Securities (Treasury Bills, Treasury Bonds and Reverse Repurchase Agreements) for the year 2017 amounts to Rs.76,989,792 (2016 - Rs. 35,751,850) and has been grossed up by adding notional tax receivable.

26. Interest expense

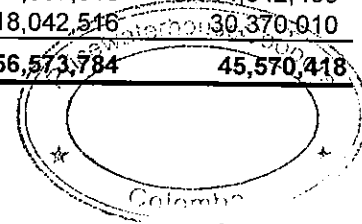
	2017	2016
Due to customers	191,314,564	103,676,647
Money market and other borrowings	17,301,874	59,751,474
	208,616,438	163,428,121

27. Fee and commission income

	2017	2016
Commission on trade finance facilities	15,961,952	17,319,149
Commission on Guarantees	2,805,741	3,538,506
Commission on Remittances	4,574,689	5,286,784
	23,342,382	26,144,439

28. Other operating income

	2017	2016
Dividend income	1,563,750	558,000
Foreign Exchange Gain	36,967,518	14,642,408
Other Income	18,042,516	30,370,010
	56,573,784	45,570,418



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

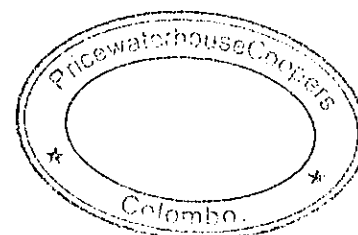
(all amounts in Sri Lanka Rupees)

29. Impairment charge for loans and advances

	2017	2016
Individual impairment charge / (reversal)	71,178,062	9,477,120
Collective impairment charge / (reversal)	(4,305,422)	4,730,298
	66,872,640	14,207,418

30. Personnel expenses

	2017	2016
Salaries	104,983,304	100,160,742
Employee benefits - defined benefit plan [Gratuity] [Note 16.2]	8,436,186	7,022,219
Employee benefits - defined contribution plan		
Employee Provident Fund (EPF)	9,403,149	8,763,093
Employee Trust Fund (ETF)	2,217,471	2,082,246
Bonus	33,103,001	54,909,212
Other allowances	75,943,304	73,798,812
Amortisation of staff loan day 01 difference	3,576,683	3,618,687
	237,663,098	250,355,011



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

(all amounts in Sri Lanka Rupees)

31. Other operating expenses

	2017	2016
Auditors fees and expenses	2,750,000	1,900,302
Non audit fees and expenses	658,458	619,698
Legal fees	2,836,519	2,300,100
Marketing expenses	4,222,589	2,503,510
Transport	5,485,374	7,083,558
Other expenses	106,323,945	96,483,132
	122,276,885	110,890,300

32 Income tax expense

	2017	2016
Current income tax		
Current income tax on profit for the year [Note 33.1]	6,857,729	13,067,072
Under / (over) provision of current taxes in respect of prior years	(1,014,465)	(14,122,336)
	5,843,264	(1,055,264)
Deferred income tax		
Deferred tax charge / (reversal) for the year	5,397,652	(3,968,567)
Income tax expense reported in the income statement	11,240,916	(5,023,831)

Deferred income tax		
Deferred tax charge / (reversal) for the year	3,489,250	(546,515)
Income tax expense reported in the Statement of comprehensive income	3,489,250	(546,515)

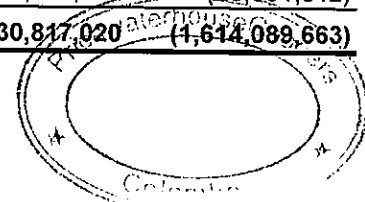
32.1 Reconciliation of accounting profit and taxable income

Accounting profit before taxation	16,476,501	105,830,051
Add: Disallowable expenses	107,518,945	129,957,854
Less: Allowable expenses and exempt income	(86,315,618)	(163,990,809)
	37,679,828	71,797,096
Less: Brought forward tax losses	(13,187,940)	(25,128,984)
Taxable income	24,491,888	46,668,112
Current income tax on profit for the year @ 28%	6,857,729	13,067,072

Effective income tax rate	42%	12%
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33. Cash flow information**33.1 Increase / (decrease) in operating assets**

	2017	2016
Reverse repurchase agreements	(350,265,940)	(300,122,805)
Placement with banks	(441,544,835)	(108,196,946)
Other financial assets including Held to Maturity	1,972,446,742	288,813,663
Loans and advances to customers	1,025,999,185	(1,466,492,264)
Other assets	24,181,868	(28,091,312)
	2,230,817,020	(1,614,089,663)



HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

(all amounts in Sri Lanka Rupees)

33. Cash flow information (contd)

	2017	2016
33.2 (Decrease) /increase in operating liabilities		
Due to banks (Vostro)	(31,517,556)	31,482,589
Due to customers	(870,907,790)	1,593,670,361
Other borrowing	(1,324,431,471)	(147,694,503)
Other liabilities	(13,709,296)	19,189,978
Employee benefit liability	(8,589,551)	(2,979,864)
	(2,249,155,665)	1,493,668,558

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.

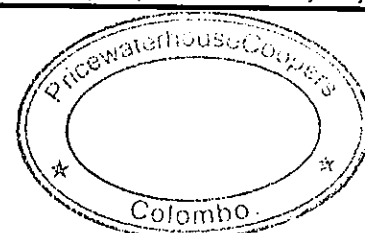
	2017	2016
Short term employee benefits	57,520,495	59,907,369
	57,520,495	59,907,369
Deposits	6,930,572	22,886,220
	6,930,572	22,886,220
Interest expense	252,533	284,778
	252,533	284,778

34.2 Transactions with affiliate branches

Items in the statement of financial position

Balances due from Banks (Nostro Balances)

	2017	2016
Habib Bank Limited - New York	-	364,390,757
Habib Bank Limited - Karachi	-	18,850,557
Habib Allied International Bank- UK	421,965,770	1,561,486
Habib Bank Limited - Belgium	189,255,975	1,541,615
Habib Bank Limited - Singapore	294,378	881,030
Habib Bank Limited - Bangladesh	1,788,061	751,920
	613,304,183	387,977,365



HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

(all amounts in Sri Lanka Rupees)

34. Related party disclosure (contd)

34.2 Transactions with affiliate branches (contd)

Items in the statement of financial position

	2017	2016
Balances due to Banks (Vostro Balances)		
Habib Bank Limited - Male	36,592,952	173,173
Habib Bank Limited - Central Branch - Oman	471,808	478,024
Habib Bank Limited - Deira Branch - Dubai	112,078	4,166
Habib Bank Limited - HO Treasury - Karachi	26,345,165	76,683,525
	63,522,002	77,338,888

Other borrowings

Habib Bank Limited - Karachi	-	602,234,375
Habib Bank Limited - KEPZ	-	752,218,750
	-	1,354,453,125

Items in the statement of comprehensive income

Money market and other borrowings (Inter Branch borrowing related expense)	-	24,456,101
	-	24,456,101

34.3 Transactions with Habib Bank Limited

- Employee Provident Fund

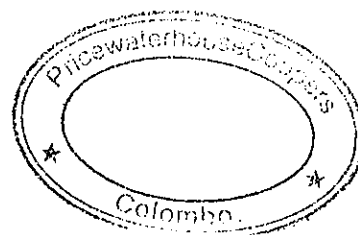
Items in the Statement of Financial Position

Liabilities

Saving deposit	110,825,853	102,411,098
	110,825,853	102,411,098

Items in the Statement of Comprehensive Income

Employee benefits - Employee Provident Fund	9,403,149	8,763,093
Interest expense	11,879,774	7,326,719
	21,282,923	16,089,812

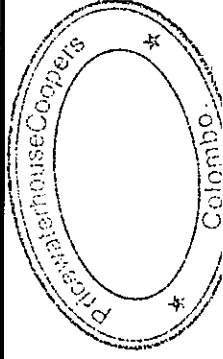


HABIB BANK LIMITED - SRI LANKA BRANCH**Notes to the financial statements (contd)**

(all amounts in Sri Lanka Rupees)

35. Maturity analysis of assets and liabilities

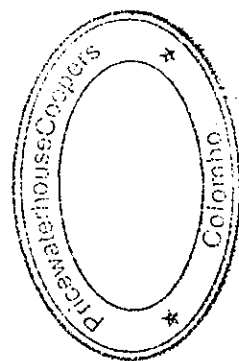
As at 31 December	Within 12 Months		After 12 Months		2017 Total		Within 12 Months		After 12 Months		2016 Total	
	12 Months		12 Months		Total		12 Months		12 Months		Total	
Assets												
Cash and cash equivalents	674,753,706		-		674,753,706		1,247,248,959		-		1,247,248,959	
Balances with Central Bank of Sri Lanka	162,222,177		1,196,494,218		1,358,716,395		135,532,640		1,170,737,982		1,306,270,622	
Reverse repurchase agreements	650,388,745		-		650,388,745		300,122,805		-		300,122,805	
Placements with financial institutions	651,419,863		-		651,419,863		209,875,028		-		209,875,028	
Financial assets- Held to Maturity	488,451,406		-		488,451,406		496,843,435		-		496,843,435	
Other financial assets	383,955,653		13,971,086		397,926,739		1,661,155,673		700,245,780		2,361,401,453	
Loans and advances to customers	2,027,122,609		1,851,242,643		3,878,365,252		3,726,084,000		1,244,979,077		4,971,063,077	
Other assets	37,418,426		22,471,304		59,889,730		73,772,478		33,178,704		106,951,182	
Income tax receivable	65,203,706		-		65,203,706		48,167,386		-		48,167,386	
Property, plant and equipment	-		319,121,088		319,121,088		-		228,211,703		228,211,703	
Deferred tax asset	-		24,276,429		24,276,429		-		33,163,331		33,163,331	
Total assets	5,140,936,292		3,427,576,767		8,568,513,059		7,898,802,404		3,410,517,428		11,309,318,981	
Liabilities												
Due to banks	63,544,657		-		63,544,657		778,075,831		-		778,075,831	
Due to customers	2,479,216,368		-		2,479,216,368		3,350,124,158		-		3,350,124,158	
Other borrowings	30,021,654		-		30,021,654		1,354,453,125		-		1,354,453,125	
Other liabilities	44,057,215		-		44,057,215		57,766,512		-		57,766,512	
Employee benefit liability	-		45,228,202		45,228,202		-		46,938,173		46,938,173	
Total liabilities	2,616,839,894		45,228,202		2,662,068,096		5,540,419,626		46,938,173		5,587,357,799	



HABIB BANK LIMITED - SRI LANKA BRANCH**Notes to the financial statements (contd)**
(all amounts in Sri Lanka Rupees)**36. Fair Value Measurement****36.1 Fair Value Measurement Hierarchy for Assets as at 31 December 2017****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 recognized in the Statement of Financial Position in the Financial Statements. Please refer Note 2.3.2 to the Financial Statements to the Fair value measurement and fair value hierarchy.

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.	
As At 31 December 2017 Assets measured at fair value Land and Building Land Buildings	03 October 2017	183,375,000	-	-	-	-	183,375,000	
	03 October 2017	56,225,000	-	-	-	-	56,225,000	
		239,600,000	-	-	-	-	239,600,000	
36.1.2 Assets not carried at fair value for which fair values are disclosed As At 31 December 2017 Other Financial Assets Loans and Advances to Customers	31 December 2017	397,926,739			397,926,739		-	
	31 December 2017	3,878,365,252	-	-	3,878,365,252		-	
		4,276,291,991	-	-	4,276,291,991		-	



HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

(all amounts in Sri Lanka Rupees)

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	2017 Fair Value Rs.	2017 Carrying Value Rs.	2016 Fair Value Rs.	2016 Carrying Value Rs.
Other financial assets	397,926,739	397,926,739	2,366,074,747	2,361,981,453
Loans and advances to customers	3,878,365,252	3,878,365,252	4,970,259,652	4,971,237,077
	4,276,291,991	4,276,291,991	7,336,334,399	7,333,218,530

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.

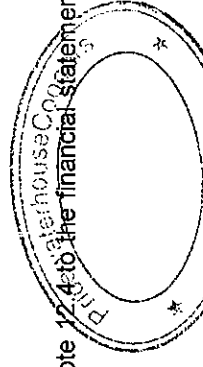
The following is a list of financial instruments whose carrying amount is a reasonable approximation of fair value because, for example, they are short-term in nature to reprice to current market rates frequently:

Assets	Liabilities
Cash and Cash equivalents	Due to Banks
Balances with Central Bank of Sri Lanka	Other Borrowings
Reverse Repurchase Agreements	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 2 and Level 3 respectively. Please refer Note 12.4 to the financial statements for more details.



HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

(all amounts in Sri Lanka Rupees)

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 organization's strategic advantage.

As 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

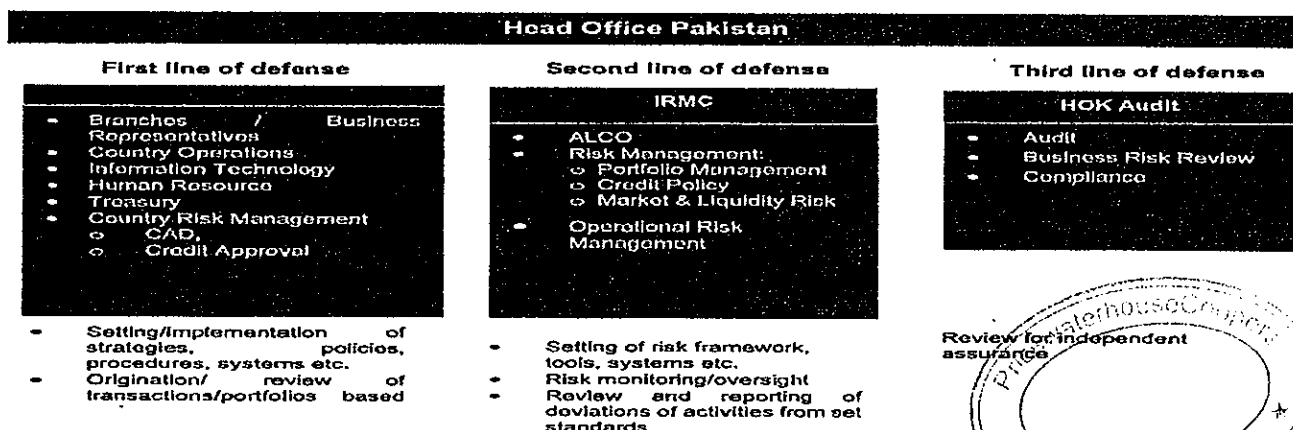
Consolidated annual business plan of the bank will serve as its business strategy. Risk management strategy will essentially be represented by Risk Appetite Statement of HBL SL covering all material Risk types that it is exposed to.

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



HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

(all amounts in Sri Lanka Rupees)

37. Risk management (contd)

37.1 Risk management framework (contd)

37.1.1 Components of Risk Management Framework (contd)

37.1.1.2 Risk Management Structure

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

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 recognize 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 and Manager Internal Control & Operational Risk. The Country / Regional Risk Manager is the Secretary of the Committee.

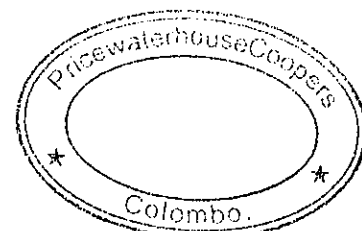
Asset & Liability Committee (ALCO)

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.



HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

37. Risk management

37.1 Risk management framework (contd)

37.1.1 Components of Risk Management Framework (contd)

37.1.1.2 Risk Management Structure (contd)

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 & Liquidity Risk Management
- Implementation of CBSL guidelines on Basel III including the ICAAP

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

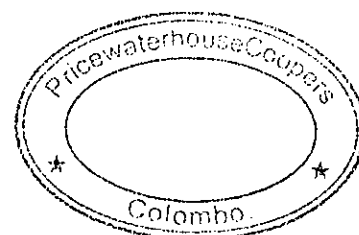
The objective of Basel III framework under Pillar I (Minimum Capital Requirement) is to ensure that banks holds sufficient capital for Credit Market & Operational risk. HBL SL is compliant with the following approaches of Basel III under Pillar I.

Credit Risk: Standardized Approach

Market Risk: Standardized 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.



HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

37. Risk management

37.2 Basel III (contd)

Pillar II - Supervisory Review Process (SRP)

The objective of SRP is to assess capital adequacy of the banks and to determine whether banks hold additional capital to cover risks that are not covered or adequately covered under minimum capital requirement of Pillar I. The banks are required to implement an internal process, called the Internal Capital Adequacy Assessment Process (ICAAP) for assessing capital adequacy in relation to all material risk faced by the bank as well as to develop a strategy for maintaining adequate capital level. HBL SL has in place a detailed ICAAP in compliance with Pillar II requirements of Basel III. The ICAAP of HBL SL ensures that the bank is adequately capitalized in line with all material risk faced by the bank.

The bank has also put in place a comprehensive Stress testing policy and Framework in compliance with the regulatory requirements. Stress Testing forms an integral part of the overall governance and risk management culture at HBL SL. HBL SL operates a stress test framework that promotes risk identification and control, provides a complementary risk perspective to other risk management tools, improves capital & liquidity management and enhances internal & external communication.

The stress tests carried out as at 31 December 2017 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

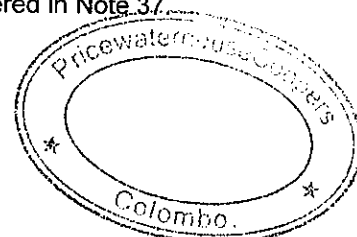
Impact of loss of wholesale & interbank deposits/ borrowings on Liquid Asset Ratio

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.



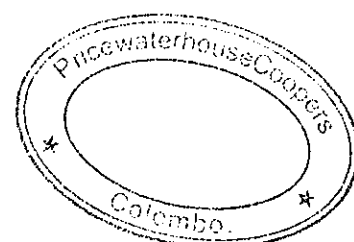
HABIB BANK LIMITED - SRI LANKA BRANCH**Notes to the financial statements (contd)****37. Risk management****37.2 Credit risk****37.2.1 Introduction**

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.

37.2.2 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, collateralization 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 customized 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.



HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

37. Risk management (contd)

37.2 Credit risk (contd)

37.2.3 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 Organization

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

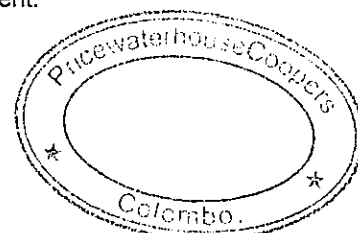
Credit Risk Management Process

Salient features of our 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 of borrower, assessment of repayment capacity of the borrower, future cash flows, proposed terms and conditions and covenants and adequacy

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.



HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

37. Risk management (contd)

37.2 Credit risk (contd)

37.2.3 Credit Risk Management (Contd)

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.

Credit Risk Monitoring and Reporting

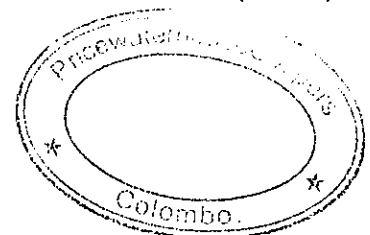
The Bank's philosophy of effective credit risk monitoring is based on a continuous close monitoring of the key credit risk indicators, behavioral and characteristics of individual credit portfolios and environmental factors that may have an impact on the Bank's credit risk profile.

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 and the Country / Regional Risk Manager reviews 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 beyond the maturity date of the facility that it is securing so as to provide an appropriate cushion. Under the Basel II Standardised approach, collateral that is valid beyond 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.



HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

37. Risk management (contd)

37.2 Credit risk (contd)

37.2.3 Credit Risk Management (Contd)

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.

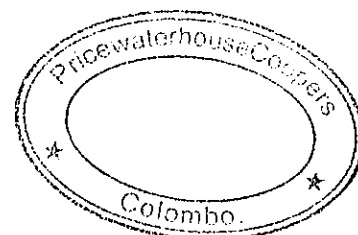
Collateral valuation and management

Collateral Valuation is carried out periodically in line with the Credit Policies 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
- Cross Corporate Guarantees in case of group entities
- Corporate Guarantees



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

(all amounts in Sri Lanka Rupees)

37. Risk management (contd)**37.2 Credit risk (contd)****37.2.4 Credit risk exposure**

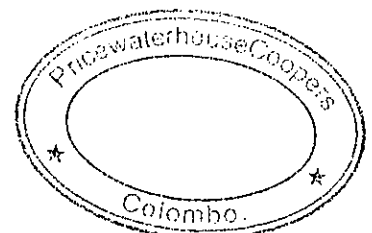
The total gross loans and receivables from all credit customers of the Bank stood at Rs. 4,001,197,474 Mn (2016 - Rs. 5,027 Mn) as at 31 December 2017. Please refer Note 10 for the product wise loans and advances.

37.2.4.1 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 recognised on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the bank.

	2017	2016
	Rs.	Rs.
Letter of credits	13,183,800	158,705,834
Guarantees	755,656,170	197,804,513
Acceptances	47,434,555	349,590,900
Undrawn commitments	1,098,817,367	2,059,484,000
	1,915,091,892	2,765,585,247

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



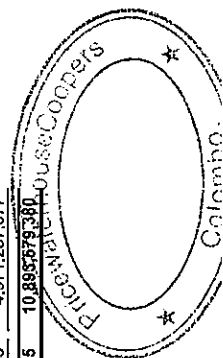
HABIB BANK LIMITED - SRI LANKA BRANCH**Notes to the financial statements (contd)**

(all amounts in Sri Lanka Rupees)

37. Risk management (contd)**37.2.4.2 ANALYSIS OF RISK CONCENTRATION**

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

As at 31 December 2017	Agriculture and Fisheries	Financial Services	Government	Manufacturing	Construction and Housing	Traders	Other	Total
Cash and cash equivalents	-	674,753,706	-	-	-	-	-	674,753,706
Balances with Central Bank of Sri Lanka	-	-	1,358,716,395	-	-	-	-	1,358,716,395
Reverse repurchase Agreements	-	-	650,388,745	-	-	-	-	650,388,745
Placements with financial institutions	-	651,419,863	-	-	-	-	-	651,419,863
Financial assets - held to maturity	-	-	488,451,406	-	-	-	-	488,451,406
	-	1,326,173,569	2,497,556,546	-	-	-	-	3,823,730,115
Other financial assets								
Sri Lanka Development Bonds	-	-	-	-	-	-	-	-
Trust certificates	-	146,798,793	-	-	-	-	-	146,798,794
Debentures	-	250,547,945	-	-	-	-	-	250,547,945
Unquoted investments	-	-	-	-	-	-	580,000	580,000
Total other financial assets	-	397,346,738	-	-	-	-	580,000	397,926,739
Loans and advances to customers								
Gross loans and advances	45,591,774	41,531,024	-	2,016,908,100	35,891,437	591,031,264	1,270,243,874	4,001,197,474
Allowance for impairment losses	(196,689)	(179,152)	-	(8,700,306)	(154,824)	(96,983,748)	(18,617,524)	(122,832,222)
Net loans and advances	45,395,106	41,351,872	-	2,008,207,795	35,736,613	494,047,516	1,251,626,350	3,878,365,252
	45,395,106	1,764,872,179	2,497,556,546	2,008,207,795	35,736,613	494,047,516	1,254,206,350	8,100,022,106
As at 31 December 2016								
Cash and cash equivalents	-	1,247,248,959	-	-	-	-	-	1,247,248,959
Balances with Central Bank of Sri Lanka	-	-	1,306,270,622	-	-	-	-	1,306,270,622
Reverse repurchase Agreements	-	-	300,122,805	-	-	-	-	300,122,805
Placements with financial institutions	-	209,875,028	-	-	-	-	-	209,875,028
Financial assets - held to maturity	-	-	496,843,435	-	-	-	-	496,843,435
	-	1,457,123,987	2,103,236,862	-	-	-	-	3,560,360,850
Other financial assets								
Sri Lanka Development Bonds	-	-	1,221,177,782	-	-	-	-	1,221,177,782
Trust certificates	-	835,367,805	-	-	-	-	-	835,367,805
Debentures	-	304,855,867	-	-	-	-	-	304,855,867
Unquoted investments	-	-	-	-	-	-	580,000	580,000
Total other financial assets	-	1,140,223,672	1,221,177,782	-	-	-	580,000	2,361,981,453
Loans and advances to customers								
Gross loans and advances	507,749,102	99,995,000	-	562,332,706	58,484,233	2,055,256,987	1,643,243,493	5,027,081,530
Allowance for impairment losses	-	-	-	(13,817,276)	(1,108,376)	(8,087,894)	(32,810,907)	(55,824,453)
Net loans and advances	507,749,102	99,995,000	-	648,515,430	57,375,857	2,047,169,103	1,610,432,585	4,971,237,077
	507,749,102	2,697,342,659	3,324,414,644	648,515,430	57,375,857	2,047,169,103	1,611,012,585	10,895,579,380



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

(all amounts in Sri Lanka Rupees)

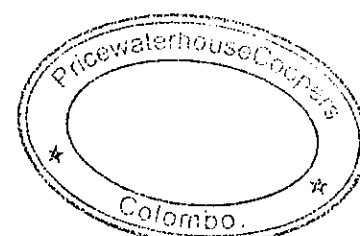
37. Risk management (contd)**37.2.4.3 Credit Quality of Loans and Advances to Customers**

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

As at 31 December 2017	Neither past due nor impaired	Past due but not impaired	Individually Impaired	2017 Total
Gross loans and advances to customers				
Term loans	2,110,049,368	304,366	-	2,110,353,734
Overdraft	549,254,505	444,793,421	266,216,332	1,260,264,258
Short term loans	101,099,804	330,944,264	21,084,167	453,128,234
Trade finance loans	59,840,414	33,563,868	32,693,673	126,097,955
Staff loans	51,353,292	-	-	51,353,292
Total	2,871,597,383	809,605,919	319,994,172	4,001,197,474

As at 31 December 2016	Neither past due nor impaired	Past due but not impaired	Individually Impaired	2016 Total
Gross loans and advances to customers				
Term loans	1,556,947,684	6,771,239	-	1,563,718,923
Overdraft	1,619,673,022	273,184,158	34,338,005	1,927,195,185
Short term loans	845,759,763	112,801,745	-	958,561,508
Trade finance loans	515,112,782	12,348,165	-	527,460,946
Staff loans	50,124,967	-	-	50,124,967
Total	4,587,618,218	405,105,307	34,338,005	5,027,061,530

Note : Past Due loans include any loan that are in arrears for more than one day.



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

(all amounts in Sri Lanka Rupees)

37. Risk management (contd)**37.2.4.3 Credit Quality of Loans and Advances to Customers (contd)****Aging of past due but not impaired loans and advances to customers**

	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	304,366	-	-	304,366
Overdraft	444,793,421	-	-	444,793,421
Short term loans	330,944,264	-	-	330,944,264
Trade finance loans	33,563,868	-	-	33,563,868
Total	809,605,919	-	-	809,605,919

Please refer Note 10 for the individual and collective impairment with respect to loans and advances to customers.

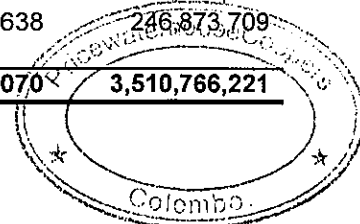
37.2.4.4 Collateral and Other Credit Enhancements

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 2017	Maximum exposure to credit risk	Net collateral value	Net exposure
Cash and cash equivalents	674,753,706	-	674,753,706
Balances with Central Bank of Sri Lanka	1,358,716,395	-	1,358,716,395
Reverse repurchase agreements	650,388,745	-	650,388,745
Placements with financial institutions	651,419,863	-	651,419,863
Other financial assets	397,926,739	397,926,739	-
Loans and advances to customers	3,878,365,252	3,731,617,378	146,747,874
Contingent liabilities including financial guarantees and letters of credits	816,274,525	744,351,510	71,923,015
	8,427,845,225	4,873,895,627	3,553,949,598

As at 31 December 2016	Maximum Exposure to Credit Risk	Net Collateral Value	Net Exposure
Cash and cash equivalents	1,247,248,959	-	1,247,248,959
Balances with Central Bank of Sri Lanka	1,306,270,622	-	1,306,270,622
Reverse repurchase agreements	300,122,805	-	300,122,805
Placements with financial institutions	209,875,028	-	209,875,028
Other financial assets	2,361,981,453	2,361,981,453	-
Loans and advances to customers	4,971,237,077	4,770,861,979	200,375,098
Contingent liabilities including financial guarantees and letters of credits	706,101,247	109,636,638	246,873,709
	11,102,837,191	7,242,480,070	3,510,766,221



HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

(all amounts in Sri Lanka Rupees)

37. Risk management (contd)

37.3 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

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

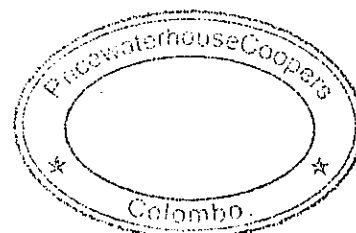
Market risk strategy / Policies and scope

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.

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 where the system is awaited if the product can be managed manually. Such exceptions 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.



HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

(all amounts in Sri Lanka Rupees)

37. Risk management (contd)

37.3 Market risk (contd)

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.

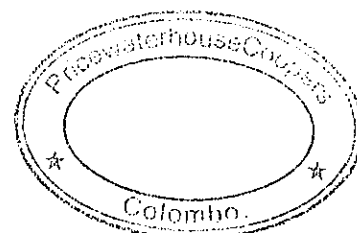
The Market & Liquidity Risk Analyst is responsible for analysis, monitoring and reporting of market risk exposures undertaken by the bank.

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 notional (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)**

(all amounts in Sri Lanka Rupees)

37. Risk management (contd)**37.3.1 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 treasury 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. treasury and banking book, and almost similar techniques are used to analyse them considering the nature of securities i.e. investment (HTM) being classified in the treasury book.

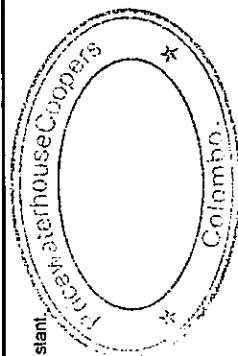
Gap analysis measures the differences between the RSA and RSL that mature or re-price within a time period. HBLSL uses rate sensitive gap analysis as a tool for measuring sensitivity of the Bank's RSA and RSL to interest rate variations in different time bands based on the residual term to maturity (fixed rate) or residual term for their next repricing (floating rate) as shown in Note 35

37.3.1.1 Interest Rate Sensitivity Gap Analysis as at 31 December 2017

	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	674,753,706	-	-	-	-	-	-	-	-	-	674,753,706
Balances with Central Bank of Sri Lanka	1,358,716,395	-	-	-	-	-	-	-	-	-	1,358,716,395
Reverse Repurchase Agreements	650,388,745	650,388,745	-	-	-	-	-	-	-	-	-
Placements with Financial Institutions	651,419,863	651,419,863	-	-	-	-	-	-	-	-	-
Financial Assets - Held to Maturity	488,451,406	392,894,808	95,556,600	-	-	-	-	-	-	-	-
Other Financial Assets	397,926,739	51,698,793	37,500,000	16,200,000	286,347,945	5,600,000	-	-	-	-	580,000
Gross Loans and Advances to Customers	4,014,237,547	1,287,735,352	2,631,538,131	23,414,883	9,823,762	5,659,320	929,363	4,691,893	39,246,617	11,178,225	-
	8,235,894,401	3,034,137,560	2,764,614,731	39,614,883	296,171,707	11,259,320	929,363	4,691,893	39,246,617	11,178,225	2,034,050,101
Financial Liabilities											
Due to Banks	63,544,657	-	-	-	-	-	-	-	-	-	63,544,657
Due to Customers	2,479,216,368	865,480,253	862,520,803	159,968,137	225,715,938	-	-	-	-	-	365,531,236
Other Borrowings	30,021,654	30,021,654	-	-	-	-	-	-	-	-	-
	2,572,782,679	895,501,907	862,520,803	159,968,137	225,715,938	-	-	-	-	-	429,075,893
Total Interest Rate Sensitivity Gap	5,663,111,722	2,138,635,653	1,902,093,928	(120,353,254)	70,455,769	11,259,320	929,363	4,691,893	39,246,617	11,178,225	1,604,974,207

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%	(9,185,274)
-1%	9,507,005



HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

(all amounts in Sri Lanka Rupees)

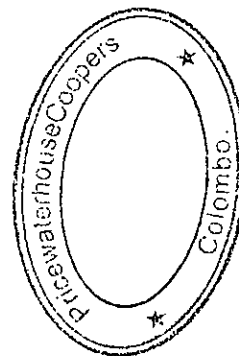
37. Risk management (contd)**37.3.1 Interest Rate Risk (contd)**

Interest Rate Sensitivity Gap Analysis as at 31 December 2015

	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	1,247,248,959	48,018,487	-	-	-	-	-	-	-	-	1,199,230,472
Balances with Central Bank of Sri Lanka	1,306,270,822	-	-	-	-	-	-	-	-	-	1,306,270,822
Reverse Repurchase Agreements	300,122,805	300,122,805	-	-	-	-	-	-	-	-	-
Placements with Financial Institutions	209,875,028	-	-	-	209,875,028	-	-	-	-	-	-
Financial Assets - Held to Maturity	496,843,435	301,055,235	195,788,200	-	-	-	-	-	-	-	-
Other Financial Assets	2,361,981,453	-	1,221,177,783	54,855,866	385,122,024	450,245,780	250,000,000	-	-	-	580,000
Gross Loans and Advances to Customers	5,040,826,658	2,304,597,477	2,489,073,327	176,570,889	2,715,386	5,408,383	3,044,776	24,632,891	19,631,046	10,176,549	4,976,133
	10,963,168,960	2,963,794,004	3,906,039,310	231,426,555	597,712,438	455,654,163	253,044,776	24,632,891	19,631,046	10,176,549	2,511,057,227
Financial Liabilities											
Due to Banks	778,075,831	-	-	-	-	-	-	-	-	-	778,075,831
Due to Customers	3,350,124,158	1,175,958,675	312,526,395	232,019,489	1,032,686,423	-	-	-	-	-	596,933,176
Other Borrowings	1,354,453,125	1,129,453,125	-	-	225,000,000	-	-	-	-	-	-
	5,482,653,114	2,305,411,800	312,526,395	232,019,489	1,257,686,423	-	-	-	-	-	1,375,009,008
Total Interest Rate Sensitivity Gap	5,480,515,845	648,382,204	3,593,512,916	(592,934)	(659,973,985)	455,654,163	253,044,776	24,632,891	19,631,046	10,176,549	1,136,049,220

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%	(18,924,951)
-1%	19,327,431



HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

(all amounts in Sri Lanka Rupees)

37. Risk management (contd)

37.3.2 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.

	2017	2016
Net Open Position (USD)	(- 416,000) (Oversold)	287,000 (Overbought)

Please refer Note 10.2 foreign currency advances and Note 14.2 foreign currency deposits balance as at 31 December 2017.

37.4 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.

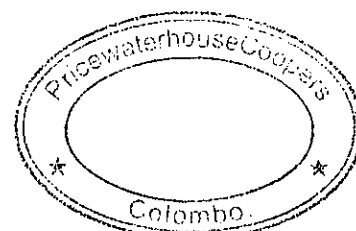
37.4.1 Liquidity risk mitigation, monitoring and reporting

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 unfavourable terms resulting in long term damage to earnings and reputation of the Bank.

Please refer Note 37.4.2 for maturity analysis of assets and liabilities as at 31 December 2017.

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



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

(all amounts in Sri Lanka Rupees)

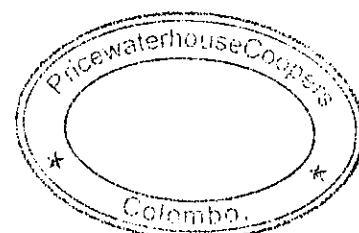
37. Risk management (contd)**37.4.2 Analysis of financial assets and liabilities by remaining contractual maturities**

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 2017. Balances due within 12 months are equal to their carrying value as the impact of discounting is not significant.

As at 31 December 2017	On Demand (less than 15 Days)	15 Days to 3 Months	3 Months 12 Months	Over 1 Year	Total 2017
Assets	Rs.	Rs.	Rs.	Rs.	Rs.
Cash and cash equivalents	674,753,706	-	-	-	674,753,706
Balances with Central Bank of Sri Lanka	162,222,177	-	-	1,196,494,218	1,358,716,395
Reverse repurchase agreements	400,388,745	250,000,000	-	-	650,388,745
Placements with financial institutions	400,267,123	251,152,740	-	-	651,419,863
Financial Assets- Held to Maturity	-	488,451,406	-	-	488,451,406
Other financial assets	-	63,336,740	306,553,777	14,551,086	384,441,603
Loans and advances to customers	1,616,544,518	157,729,660	441,048,985	1,663,042,089	3,878,365,252
Total financial assets	3,254,176,270	1,210,670,546	747,602,762	2,874,087,392	8,086,536,971
Liabilities					
Due to banks	63,544,657	-	-	-	63,544,657
Due to customers	1,169,045,186	924,487,107	385,684,075	-	2,479,216,368
Other borrowings	30,021,654	-	-	-	30,021,654
Total financial liabilities	1,262,611,497	924,487,107	385,684,075	-	2,572,782,679
As at 31 December 2016	On Demand (less than 15 Days)	15 Days to 3 Months	3 Months 12 Months	Over 1 Year	Total 2016
Assets					
Cash and cash equivalents	1,247,248,959	-	-	-	1,247,248,959
Balances with Central Bank of Sri Lanka	135,532,640	-	-	1,170,737,982	1,306,270,622
Reverse repurchase agreements	300,122,805	-	-	-	300,122,805
Placements with financial institutions	-	-	209,875,028	-	209,875,028
Financial assets- held to maturity	-	301,055,235	195,788,200	-	496,843,435
Other financial assets	-	1,025,073,665	1,042,827,789	294,080,000	2,361,981,454
Loans and advances to customers	1,893,920,617	1,543,455,951	288,880,580	1,244,979,929	4,971,237,077
Total financial assets	3,576,825,022	2,869,584,851	1,737,371,596	2,709,797,911	10,893,579,379
Liabilities					
Due to banks	778,075,831	-	-	-	778,075,831
Due to customers	1,649,087,240	436,331,005	1,264,705,912	-	3,350,124,157
Other borrowings	1,129,453,125.00	-	225,000,000	-	1,354,453,125
Total financial liabilities	1,214,406,836	436,331,005	1,264,705,912	-	5,482,653,114

37.4.3 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.



HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

(all amounts in Sri Lanka Rupees)

37. Risk management (contd)

37.5 Operational risk management (ORM)

Operational risk is the risk of potential inability of an organisation 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 Compliance Officer through 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
- 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 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 activities to vendors / service providers in Sri Lanka.

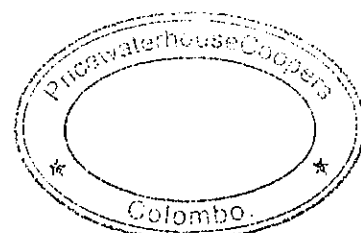
A complete due diligence is performed and approvals obtained for Outsourcing arrangements with Third Party Service Providers in line with Outsourcing Policy of HBLSL.

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

HBL SL has reported LKR 13.875 Mn as loss data for FY-2017 to CBSL. Under Basel III HBL SL follows Basic Indicator Approach for calculating capital charge for Operational Risk.



HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

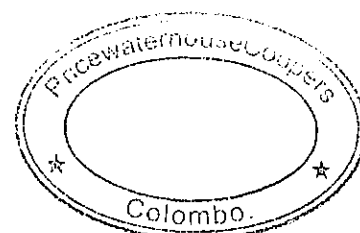
(all amounts in Sri Lanka Rupees)

37. Risk management (contd)

37.6 Key Regulatory Ratios

37.6.1 Capital and Liquidity

Item	31 December 2017	31 December 2016
Regulatory capital (LKR '000)		
Common equity tier 1	4,479,707	4,689,602
Tier 1 capital	4,479,707	4,689,602
Total capital	4,545,334	4,759,399
Regulatory capital ratios (%)		
Common equity tier 1 Capital Ratio (<i>Minimum Requirement-5.75%</i>)	78%	65%
Tier 1 capital ratio (<i>Minimum Requirement - 7.25%</i>)	78%	65%
Total capital ratio (<i>Minimum Requirement - 11.25%</i>)	79%	66%
Statutory liquid assets (LKR'000)	2,514,205	1,043,459
Statutory liquid assets ratio (<i>Minimum Requirement - 20%</i>)	52%	30%
Domestic banking unit (%)	52%	30%
Off-shore banking unit (%)	24%	87%
Liquidity coverage ratio (%) – Rupee (<i>Minimum Requirement -80%</i>)	938%	821%
Liquidity coverage ratio (%) – All currency (<i>Minimum Requirement -80%</i>)	589%	240%



HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

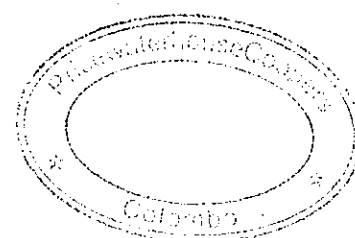
(all amounts in Sri Lanka Rupees)

37. Risk management (contd)

37.6 Key Regulatory Ratios

37.6.2 Basel III Computation of Capital Ratios

Item	(LKR '000)	
	31 December 2017	31 December 2016
Common equity tier 1 (CET1) capital after adjustments	4,479,707	4,689,602
Common equity tier 1 (CET1) capital	5,116,182	5,110,087
Equity capital (stated capital) / assigned capital	4,938,391	4,938,390
Reserve fund	67,860	67,860
Published retained earnings / (accumulated retained losses)	111,474	103,837
Published accumulated other comprehensive income (OCI)	(1,543)	-
Total adjustments to CET1 capital	636,475	420,485
Deferred tax assets (net)	24,276	33,163
Amount due to head office & branches outside Sri Lanka in Sri Lanka Rupees	(1,105)	(655)
Amount due from head office & branches outside Sri Lanka in foreign currency (net)	613,304	387,977
Additional tier 1 (AT1) capital after adjustments	-	-
Additional tier 1 (AT1) capital	-	-
Qualifying additional tier 1 capital instruments	-	-
Total adjustments to AT1 capital	-	-
Investment in own shares	-	-
Others	-	-
Tier 2 capital after adjustments	65,627	69,797
Tier 2 capital	65,627	69,797
Qualifying tier 2 capital instruments	-	-
Revaluation gains	48,311	48,311
Loan loss provisions	17,316	21,486
Total adjustments to tier 2	-	-
CET1 capital	4,479,707	4,689,602
Total tier 1 capital	4,479,707	4,689,602
Total capital	4,545,334	4,759,399



HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

(all amounts in Sri Lanka Rupees)

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 recognised 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

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Bank has formal controls and policies for managing legal claims.

High Court (Civil) case No.378/2007 (MR) People's Bank Vs Habib Bank Limited was filed regarding the dispute of sum of Rs.15,520,000/- together with the interest. Judgement was delivered in favour of the Defendant, dismissing the Plaintiff's (Peoples' Bank) plaint without costs.

40. Events after the reporting date

No material events have taken place since 31 December 2017 that require disclosure and/or adjustments in these accounts.

