



HABIB BANK LIMITED - SRI LANKA BRANCH

FINANCIAL STATEMENTS
31 DECEMBER 2018

HABIB BANK LIMITED - SRI LANKA BRANCH**FINANCIAL STATEMENTS - 31 DECEMBER 2018****CONTENTS**

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Independent auditor's report

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

Report on the audit of the financial statements

Our opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Habib Bank Limited Sri Lanka Branch ("the Branch") as at December 31, 2018, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

What we have audited

The financial statements of the Branch, which comprise:

- the statement of financial position as at December 31, 2018;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

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

Other information

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

PricewaterhouseCoopers, P. O. Box 918, 100 Braybrooke Place, Colombo 2, Sri Lanka
T: +94 (11) 771 9700, 771 9838, F: +94 (11) 230 3197, www.pwc.com/lk

Partners D.T.S.H. Mudalige FCA, C.S. Manoharan FCA, S. Gajendran FCA, Mr. S. Hadgie FCA, N.R. Gunasekera FCA,
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Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

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

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from



error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Branch's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Branch's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Branch to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Priscilla En Route Coopers.
CHARTERED ACCOUNTANTS

COLOMBO

28 March 2019

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Statement of financial position

(all amounts in Sri Lanka Rupees)

	Notes	Year ended 31 December	
		2018	2017
Assets			
Cash and cash equivalents			
Balances with Central Bank of Sri Lanka	4	2,223,464,095	674,753,706
Reverse repurchase agreements	5	70,797,200	1,358,716,395
Placements with financial institutions	6	-	650,388,745
Financial assets at amortised cost	7	1,126,898,395	651,419,863
- Loans and advances to customers	8	3,515,347,971	3,878,365,252
- Debt and other instruments	9	1,047,576,670	886,378,145
Financial assets measured at fair value through other comprehensive income			
Other assets	10	580,000	-
Income tax receivable	11	53,929,735	59,889,730
Property, plant and equipment		80,793,974	65,203,706
Deferred tax assets	12	280,717,979	319,121,088
Total assets	18	69,273,214	24,276,429
		8,469,379,233	8,568,513,059
Liabilities			
Due to banks			
Financial liabilities at amortised cost - Due to customers	13	46,649,008	63,544,657
Financial liabilities at amortised cost - Borrowings	14	2,139,903,498	2,479,216,368
Other liabilities	15	-	30,021,654
Employee benefit liability	16	63,652,100	44,057,215
Total liabilities	17	49,898,398	45,228,202
		2,300,183,088	2,662,068,096
Equity			
Assigned capital			
Statutory reserve fund	19	4,938,390,143	4,938,390,143
Revaluation reserve	20	68,121,518	68,121,518
Exchange equalisation of capital	21	204,911,724	222,649,224
Exchange equalisation of reserve	22	296,882,890	557,062,966
Retained earnings	23	8,319,596	10,289,766
Total equity	24	652,570,274	109,931,346
Total liabilities and equity		6,169,196,145	5,906,444,963
		8,469,379,233	8,568,513,059
Contingent liabilities and commitments	37.2.4.1	937,251,416	1,915,091,892

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 08 to 61 form an integral part of these financial statements.

28 March 2019
Colombo



HABIB BANK LIMITED - SRI LANKA BRANCH**Statement of comprehensive income**

(all amounts in Sri Lanka Rupees)

	Notes	Year ended 31 December 2018	2017
Interest income	25	467,516,704	659,916,935
Interest expense	26	(168,227,406)	(208,616,438)
Net interest income		299,289,298	451,300,497
Fees and commission income	27	2,940,279	23,342,382
Other operating income	28	(39,086,443)	56,573,784
Total operating income		263,143,134	531,216,663
Impairment charges and other losses	29	(73,491,166)	(72,148,424)
Net operating income		189,651,968	459,068,239
Personnel expenses	30	(229,851,844)	(237,663,090)
Depreciation of property plant and equipment	12	(38,930,494)	(45,631,451)
Other operating expenses	31	(108,954,671)	(116,988,008)
Total operating expenses		(377,737,009)	(400,282,056)
Operating profit before taxes and levies on financial services		(188,085,041)	58,786,183
Taxes and levies on financial services	32.1	(12,727,573)	(42,309,682)
Profit before income tax		(200,812,614)	16,476,501
Income tax expense	32.2	49,012,526	(11,240,916)
Profit for the year		(151,800,088)	5,235,585
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	(7,169,649)	1,556,606
Revaluation of land and buildings	12	-	121,600,000
Exchange differences on translation of foreign currency capital	22	467,655,005	50,928,129
Exchange differences on translations of foreign currency reserves	23	(1,970,170)	418,712
Realisation exchange equalisation of capital	24	(727,835,081)	-
Income tax on other comprehensive income	32	(15,729,998)	(3,489,250)
Other comprehensive income for the year net of tax		(285,049,893)	171,014,197
Total comprehensive income for the year		(436,849,981)	176,249,782

The notes to the financial statements from pages 08 to 60 form an integral part of these financial statements.

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Statement of changes in equity

(all amounts in Sri Lanka Rupees)

	Notes	Assigned capital	Statutory reserve fund	Revaluation reserve	Exchange equalization of capital	Exchange equalization of reserve	Retained earnings	Total
As at 01 January 2017		4,938,390,143	67,859,739	96,622,525	506,134,837	9,871,054	103,836,784	5,722,715,182
Profit for the year	24	-	-	-	-	-	-	-
Other comprehensive income	21/22/23/24	-	-	-	-	-	5,235,585	5,235,585
Deferred tax recognised in other comprehensive income		-	-	129,079,999 (3,053,400)	50,928,129	418,712	684,906	181,111,746
Transfer to statutory reserve fund	20/24	-	261,779	-	-	-	435,850	(2,617,550)
As at 31 December 2017		4,938,390,143	68,121,518	222,649,224	557,062,966	10,289,766	109,931,346	5,906,444,963
Changes on initial application of SLFRS 09		-	-	-	-	-	(39,213,775)	-
Deferred tax on transitional adjustments		-	-	-	-	-	10,979,857	-
Restated balance as at 01.01.2018		4,938,390,143	68,121,518	222,649,224	557,062,966	10,289,766	81,697,428	5,906,444,963
Profit for the year	24	-	-	-	-	-	-	-
Other comprehensive income	21/22/23/24	-	-	-	-	-	(151,800,088)	(151,800,088)
Deferred tax recognised in other comprehensive income		-	-	(17,737,500)	467,655,005	(1,970,170)	(7,169,649)	458,515,187
Realization of exchange equalisation reserve		-	-	-	(727,835,081)	-	2,007,502	(15,729,998)
As at 31 December 2018		4,938,390,143	68,121,518	204,911,724	296,882,890	8,319,596	652,570,274	6,169,196,145

The notes to the financial statements from pages 08 to 60 form an integral part of these financial statements.

HABIB BANK LIMITED - SRI LANKA BRANCH**Statement of cash flows**

(all amounts in Sri Lanka Rupees)

	Note	Year ended 31 December	
		2018	2017
Cash flows from operating activities			
Net cash flow from operating activities before income tax	33.1	(84,658,553)	141,123,310
Operating profit before changes in operating assets and liabilities		(84,658,553)	141,123,310
Decrease in operating assets	33.2	1,553,273,865	2,173,095,463
Increase / (decrease) in operating liabilities	33.3	(389,207,965)	(2,249,155,665)
Net cash flow (used in) / generated from operating activities		1,079,407,347	65,063,108
Cash flows from investing activities			
Purchase of property plant and equipment	12.5	(1,183,494)	(7,460,334)
Dividends received	28	1,801,700	1,563,750
Proceeds from sale of property plant and equipment		3,000,000	5,000
		3,618,206	(5,891,584)
Cash flow from financing activities			
Exchange differences on translations of foreign currency capital and reserves	22/23	465,684,836	51,346,841
Net increase / (decrease) in cash and cash equivalents		1,548,710,389	110,518,365
Cash and cash equivalents at the beginning of the year		674,753,706	564,235,341
Cash and cash equivalents at the end of the year		2,223,464,095	674,753,706

The Notes to the Financial Statements from pages 08 to 60 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 2018 were authorised for issue by the local management on 30 March 2019.

2 Summary of significant accounting policies

2.1 Basis of preparation

2.1.1 Statement of compliance

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

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

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

2.1.2 Historical cost convention

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

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

2.1.3 Presentation of financial statements

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

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

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



HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.1 Basis of preparation (contd)

2.1.4 New and amended standards adopted by the bank

The bank has applied the following standards and amendments for the first time for their annual reporting period commencing 1st January 2018:

1. SLFRS 09 - Financial Instruments
2. SLFRS 15 - Revenue from contracts with customers

Other standards and amendments have no material impact on the Financial Statements.

2.1.5 Changes in accounting policies

This note explains the impact of the adaptation of SLFRS 09 Financial Instruments & SLFRS 15 Revenue from Contracts with Customers on the banks financial statements

The accounting policies adopted are consistent with those of the previous financial year, except for the changes arising out of transition to SLFRS -9 "Financial Instruments". The Company did not early adopt any of SLFRS 9 in previous periods.

As explained in note 2.1.6 the bank elected not to restate comparative figures. The reclassifications and the adjustments arising from the new impairment rules are therefor not reflected in the Statement of financial Position as at 31 December 2017, But are recognised in the opening Statement of Financial Position as of 01st January 2018.

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

	Originally Presented as of '31 December 2017	IFRS 09 Impact	Balance as of 1 December 2018
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	(331,928)	488,119,479
Other financial assets	397,926,739	(62,913)	397,863,826
Loans and advances to customers	3,878,365,252	(32,427,399)	3,845,937,853
Other assets	59,889,730	-	59,889,730
Income tax receivable	65,203,706	-	65,203,706
Property, plant and equipment	319,121,088	-	319,121,088
Deferred tax assets	24,276,429	10,979,857	35,256,286
	8,568,513,059	(21,842,383)	8,546,670,676
Liabilities			
Due to banks	63,544,657	-	63,544,657
Due to customers	2,479,216,368	-	2,479,216,368
Borrowings	30,021,654	-	30,021,654
Other liabilities	44,057,215	6,391,535	50,448,751
Employee benefit liability	45,228,202	-	45,228,202
	2,662,068,096	6,391,535	2,668,459,631
Equity			
Assigned capital	4,938,390,143	-	4,938,390,143
Reserves	968,054,820	(28,233,918)	939,820,902
	5,906,444,963	(28,233,918)	5,878,211,045



HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.1 Basis of preparation (contd)

2.1.6 Comparative information

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

The bank has not restated the comparative information of previous financial year for financial instruments within the scope of Sri Lanka Accounting Standards - SLFRS 09 on financial instruments. Therefore the comparative information for 2017 is reported under LKAS 39 on financial instruments: recognition & Measurement, and is not comparable to the information presented for 2018. Differences arising from adoption of SLFRS 09 have been recognised directly in equity as of 1st January 2018 and are disclosed in note 2.3.5.

However adoption of SLFRS 15 did not have any material impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods. There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current year or future reporting periods and on foreseeable future transactions.

SLFRS09 replaces the provision of LKAS 39 that relate to the recognition, classification and measurement of financial assets. The adaptation of SLFRS 09 financial instruments from 01.01.2018 resulted in changes in accounting policies and adjustments to the amounts recognised in financial statements.

2.2 Significant accounting judgements, estimates and assumptions

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

2.2.1 Impairment losses on loans and advances

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

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

Applicable up to December 31' 2017

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.).



HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.2 Significant accounting judgements, estimates and assumptions (contd)

2.2.1 Impairment losses on loans and advances

Applicable from January 1' 2018

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

- * Company's criteria for qualitatively assessing whether there has been a significant increase in credit risk and if so allowances for financial assets measured on a life time expected credit loss(LTECL) basis;
- * The segmentation of financial assets when their ECL is assessed on a collective basis
- * Development of ECL models; including the various statistical formulas and the choice of inputs;
- * Determination of associations between macro - economic inputs such as GDP Growth and the effect on Probability of Default(PDs), Exposure at Default (EAD) and Loss Given Default (LGD);

The impairment loss on loans and advances is disclosed in more detail in Note 2.3.4 and Note 8 to the financial statements.

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.



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

2.3.1 Functional and presentation currency

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

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

Transactions and balances

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

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

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

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

2.3.2 Fair value measurement

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

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

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

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

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

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

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

2.3.3 Cash and cash equivalents

Cash and cash equivalents includes notes and coins on hand, unrestricted balances held with central banks, and highly liquid financial assets with original maturities of three months or less from the date of the acquisition that are subject to and insignificant risk of changes in their fair value, and are used by the bank in the management of its short term commitments

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

2.3.4 Placements with financial institutions

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

2.3.5 Assigned capital

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

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

2.3.6 Statutory reserve fund

Five per centum of profits after tax is transferred to the Statutory Reserve Fund as required by section 20(1) of the Banking Act No 30 of 1988. This reserve fund will be used only for the purposes specified in Section 20 (2) of the Banking Act No 30 of 1988. No transfers made during the year due to incurred loss after tax during the year.

2.3.7 Financial instruments – initial recognition and subsequent measurement

(i) Date of recognition

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

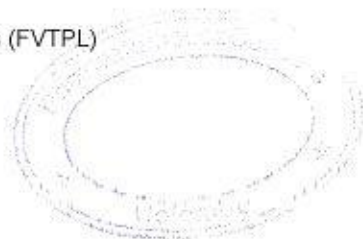
(ii) Initial measurement and subsequent measurement of financial instruments

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

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

Up to 31 December 2017 as per LKAS 39, the Group classified its financial assets into one of the following categories

- Financial assets at fair value through profit or loss (FVTPL)
- Loans and receivables (L & R)
- Held to maturity
- Available for sale



HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.3 Summary of significant accounting policies (contd)

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

On 1st January 2018 the bank's management has assessed which business models apply to the financial assets held by the bank and has classified its financial instruments into the appropriate SLFRS 09 Categories. The main effects resulting from this classification are as follows

	Classification as per LKAS 39		Classification as per SLFRS 09	
	Category	Carrying Value as of 31.12.2018	Category	Carrying Value as of 31.12.2018
Financial assets				
Cash and cash equivalents	Loans and receivable	2,223,464,095	Amortised cost	2,223,464,095
Balances with Central Bank of Sri Lanka	Loans and receivable	70,797,200	Amortised cost	70,797,200
Reverse repurchase agreements	Loans and receivable	-	Amortised cost	-
Placement with financial institution	Loans and receivable	1,126,898,395	Amortised cost	1,126,898,395
Other financial assets	Held to maturity	857,603,984	Amortised cost	857,603,984
Loans and advances to customers	Loans and receivable	3,666,557,600	Amortised cost	3,515,347,971
Investment in Government Securities	Held to maturity	180,072,687	Amortised cost	180,072,687
Investment in unquoted shares	Held to maturity	580,000	FVOCI	580,000
Financial liabilities				
Due to banks	Amortised cost	46,649,008	Amortised cost	46,649,008
Due to customers	Amortised cost	2,139,983,496	Amortised cost	2,139,983,496

(a) Equity investments previously classified as available for sale.

The bank elected to present in OCI changes in fair value of all its equity investments previously classified as available for sale, because these investments are held as long term investments that are not expected to be sold in the short medium term.

(b) Reclassification from Held to maturity to amortised cost

Debenture assets and zero coupon that would have previously been classified as held to maturity are now classified at amortised cost.

The bank intends to hold the assets to maturity to collect contractual cash flows and these cash flows consists solely of payments of principal and interest on the principal amount outstanding.

Financial assets measured at amortised cost

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

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

Financial assets measured at FVOCI

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

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

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

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.3 Summary of significant accounting policies (contd)

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

(b) Reclassification from Held to maturity to amortised cost (contd)

Financial assets measured at FVTPL

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

(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.

2.3.8 Impairment of financial assets

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

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

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

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

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



HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.3 Summary of significant accounting policies (contd)

2.3.8 Impairment of financial assets (contd)

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

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

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

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

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

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

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

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

2.3.9 De-recognition of financial assets and financial Liabilities

(i) Financial assets

- . A financial asset is derecognised when:
- . The rights to receive cash flows from the asset have expired or
- . The Bank has transferred substantially all the risks and rewards of the asset

(ii) Financial liabilities

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



HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.3.10 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.

2.3.11 Property plant and equipment

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

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

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

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

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

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

2.3.12 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.

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 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.

2.3.14 Employee benefit liability

(a) Defined benefit plan - gratuity

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

The gratuity liability is not externally funded.

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

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

2.3.15 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.

2.3.16 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%.



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 Taxes (contd)

Deferred tax

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

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

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

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

Value Added Tax (VAT) on financial services

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

Nation Building Tax on Value 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.

2.3.17 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.



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)

2.3.17 Revenue recognition (contd)

Interest income and expenses

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

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

a) Fee and commission income

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

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

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

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

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



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)

2.3.17 Revenue recognition (contd)

(ii) Fee income from providing transaction services

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

b) Net trading income

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

c) Dividend income

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

d) Other income

Other income is recognised on an accrual basis.

e) 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.

2.3.18 Contingent liabilities and commitments

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

Financial guarantees and undrawn facilities

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

2.3.19 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, highly liquid investments of which original maturity of 3 months or less and net of any amount due from banks.

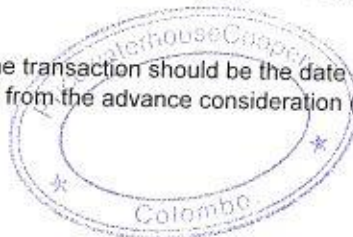
2.3.20 Sri Lanka accounting standards adopted and issued but not yet effective

2.3.20.1 New standards and amendments - applicable 1 January 2018 (Contd)

(i) IFRIC 22, "Foreign currency transactions and advance consideration

The interpretation clarifies how to determine the date of transaction for the exchange rate to be used on initial recognition of a related asset, expense or income where an entity pays or receives consideration in advance for foreign currency-denominated contracts.

For a single payment or receipt, the date of the transaction should be the date on which the entity initially recognises the non-monetary asset or liability from the advance consideration (the prepayment or deferred income / contract liability).



HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.3 Summary of significant accounting policies (contd)

2.3.20 Sri Lanka accounting standards adopted and issued but not yet effective (contd)

2.3.20.1 New standards and amendments - applicable 1 January 2018 (Contd)

(i) IFRIC 22, "Foreign currency transactions and advance consideration

If there are multiple payments or receipts for one item, a date of transaction should be determined as above for each payment or receipt.

Entities can choose to apply interpretation:

- i. retrospective for each period presented
- ii. Prospectively to items in scope that are initially recognised on or after the beginning of the reporting period in which the interpretation is first applied, or
- iii. prospectively from the beginning of a prior reporting period presented as comparative information

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

The entity had to change its accounting policies and make certain retrospective adjustments following the adaptation of SLFRS 09 and SLFRS 15.

ii) Amendments to SLFRS 1, "First Time Adoption of SLFRS"

SLFRS 1 - deleted short term exemptions covering transition provisions of SLFRS 7, LKAS 19 and SLFRS 10 which are no longer relevant.

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

2.3.20.2 New accounting standards, amendments and interpretations issued but not yet adopted in 2018.

The following new standards and amendments to standards had been issued but were not mandatory for annual reporting periods ending 31 December 2018

i) SLFRS 16 Leases

SLFRS 16 will affect preliminary the accounting by leases 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 expenses in typically higher in the earlier years of a lease and lower in later years. Additionally, operating expenses will be replaced with the interest and depreciation, so key metrics like EBITDA will change.

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

The accounting by lessors will not significantly change. Some differences may arise as a result of the new guidance on the definition of 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 bank will apply the standard from its mandatory adoption date of 1 January 2019. The bank intends to apply the simplified transitions for the year prior to first adoption. Right-of use assets for property leases will be measured on transition as if the new rules had always been applied. All other right of use assets will be measured at the amount of the lease liability on adoption.



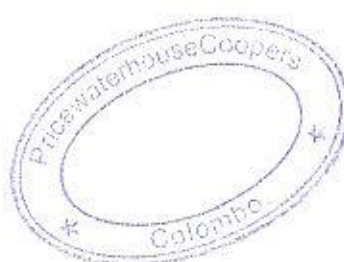
HABIB BANK LIMITED - SRI LANKA BRANCH**Notes to the financial statements (contd)****3. Analysis of financial instruments by measurement basis**

	Year ended 31 December	
	2018	2017
Assets		
Financial assets at amortised cost		
Cash and cash equivalents	2,223,464,095	674,753,706
Balances with Central Bank of Sri Lanka	70,797,200	1,358,716,395
Reverse repurchase agreements	-	650,388,745
Placement with financial institution	1,126,898,395	651,419,863
Other financial assets	857,603,984	397,926,739
Loans and advances to customers	3,515,347,971	3,878,365,252
Investment in Government Securities	189,972,687	488,451,406
Total financial assets at amortised cost	7,984,084,332	8,100,022,106
Financial assets measured at fair value through OCI		
Unquoted investments	580,000	-
Total financial assets measured at fair value through OCI	580,000	-
Liabilities		
Financial liabilities at amortised cost		
Due to banks	46,649,008	63,544,657
Due to customers	2,139,983,496	2,479,216,368
Other borrowings	-	30,021,654
Total financial liabilities	2,186,632,504	2,572,782,679

4. Cash and cash equivalents

	Year ended 31 December	
	2018	2017
Cash in Hand - Local Currency	69,798,855	52,916,145
Cash in Hand - Foreign Currency (United States Dollar)	1,661,286	635,772
Balances with Banks	105,554,284	621,201,789
Money at Call and Short Notice	2,046,449,670	-
	2,223,464,095	674,753,706

Money at call and short notice includes Standing Deposit Facility with CBSL which was funded by excess liquidity generated from USD capital conversion to LKR



HABIB BANK LIMITED - SRI LANKA BRANCH**Notes to the financial statements (contd)****5. Balances with central bank of Sri Lanka**

	Year ended 31 December	
	2018	2017
Statutory Deposit with Central Bank of Sri Lanka [Note 5.1]	70,797,200	162,222,177
Money held at Central Bank of Sri Lanka in United States Dollars [Note 5.2]	-	1,196,494,218
	70,797,200	1,358,716,395

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

5.2 As required by circular dated 29 July 2005 "Request to Maintain Capital in Foreign Currency" of the Central Bank of Sri Lanka the Bank can maintain capital in foreign currency up to maximum of 50% of the new capital brought in, provided 26% of such foreign currency capital to be retained at Reserve Fund of Central Bank of Sri Lanka and balance 25% of such reserve funds to be used for lending to BOI companies. Accordingly this balance represents the 25% held at Central Bank of Sri Lanka. HBLSL has obtained a special approval to convert USD capital in Foreign Currency Banking Unit, Thus Money held at Central Bank of Sri Lanka in United States Dollars was fully converted to LKR during the year 2018.

6. Reverse repurchase agreements

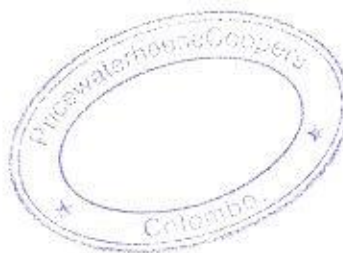
	Year ended 31 December	
	2018	2017
Due from Banks	-	650,388,745
	-	650,388,745

7. Placements with financial institutions

	Year ended 31 December	
	2018	2017
Other placements with financial institutions	1,126,898,395	651,419,863
	1,126,898,395	651,419,863

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

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.



HABIB BANK LIMITED - SRI LANKA BRANCH**Notes to the financial statements (contd)****8. Financial assets at amortised cost - loans and advances**

(As per SLFRS 9)

	2018
Gross loans and advances	3,729,267,397
Stage 1	967,256,260
Stage 2	1,893,837,688
Stage 3	868,173,449
Less ; Accumulated impairment	(213,919,426)
Stage 1	(998,994)
Stage 2	(46,928,079)
Stage 3	(165,992,352)
Net loans and advances	<u>3,515,347,971</u>

(As per LKAS 39)

	2017
Gross loans and advances	4,001,197,474
Less ; Accumulated impairment	(122,832,222)
Provision for individual impairment	(105,516,067)
Provision for collective impairment	(17,316,155)
Net loans and advances	<u>3,878,365,252</u>

8.1 Gross loans and advances by product

	Year ended 31 December	
	2018	2017
Term loans	2,081,115,145	2,111,230,536
Overdraft	1,213,547,544	1,280,471,623
Consumer loans	-	-
Short term loans	9,339,322	432,044,068
Trade finance loans	369,693,674	126,097,955
	<u>3,673,695,685</u>	<u>3,949,844,182</u>
Allowance for impairment losses [Note 10.3]	(213,919,426)	(122,832,222)
	<u>3,459,776,259</u>	<u>3,827,011,960</u>
Staff loans	67,600,200	64,393,365
Less : Allowance for Day 1 Difference	(12,028,488)	(13,040,073)
	<u>55,571,712</u>	<u>51,353,292</u>
	<u>3,515,347,971</u>	<u>3,878,365,252</u>

8.2 Gross loans and advances by currency

	Year ended 31 December	
	2018	2017
Local currency - Sri Lankan Rupees	2,437,329,194	2,752,051,581
Foreign currency	1,078,018,777	1,126,313,671
	<u>3,515,347,971</u>	<u>3,878,365,252</u>



HABIB BANK LIMITED - SRI LANKA BRANCH**Notes to the financial statements (contd)****8. Financial assets at amortised cost - loans and advances****8.3 Impairment allowance for loans and advances to customers**

	Stage 1	Stage 2	Stage 3
Opening balance as at 01.01.2018	3,154,692	46,633,707	105,516,067
Charge / (write back) to income statement	(2,166,608)	(627,351)	09,030,349
Write off during the year	-	-	(10,909,389)
Exchange impact on revaluation of foreign currency impairment	-	921,723	1,547,325
Closing balance as at 31 December 2018	998,994	46,928,079	165,992,352

8.4 Movement in Individual Impairment allowance for loans and Advances

	2017
Impairment - as at 1 January	34,338,005
Impairment charge / (reversal) during the year	71,292,769
Balance Written off during the year	(114,707)
Exchange impact on revaluation of foreign currency impairment	-
Impairment - as at 31 December	105,516,067

8.5 Movement in collective Impairment allowance for loans and advances

	2017
Impairment - as at 1 January	21,486,448
Impairment charge / (reversal) during the year	(4,305,422)
Balance Written off during the year	135,129
Exchange impact on revaluation of foreign currency impairment	17,316,155
Impairment - as at 31 December	17,316,155

9 Financial assets at amortised cost

	Year ended 31 December	
	2018	2017
Investment in Government Securities [Note 9.1]	189,972,687	488,451,406
Investment in Other Securities [Note 9.2]	858,550,909	397,926,739
Less : Provision for impairment [Note 9.3]	(946,925)	-
	1,047,576,670	886,378,145

9.1 Financial assets at amortised cost - debt and other instruments investment in Government Securities

Government treasury bills



	Year ended 31 December	
	2018	2017
	189,972,687	488,451,406
	189,972,687	488,451,406

HABIB BANK LIMITED - SRI LANKA BRANCH**Notes to the financial statements (contd)****9 Financial assets at amortised cost****9.2 Financial assets at amortised cost - debt and other Instruments**
Investment in other securities

Trust Certificates [Note 9.2.1]
 Debentures [Note 9.2.2]
 Unquoted Investments [Note 9.2.3]

Year ended 31 December	
2018	2017
858,550,909	146,798,794
-	250,547,945
	580,000
858,550,909	397,926,739

9.2.1 Trust certificates

The above balance represents investment in trust certificates of Peoples Leasing Company PLC amounting to Rs. 858.5 Mn, which mature in year 2019 (Rs. 645.7 Mn) and 2020 (Rs. 212.8 Mn). [(2017 - trust certificates of Peoples Leasing Company PLC Rs. 146.7 Mn which mature in year 2018 (Rs. 135.2 Mn), 2019 (Rs. 11.5 Mn)].

9.2.2 Debentures

Debenture investment of Seylan Bank PLC Rs. 250 Mn was matured in year 2018.

9.2.3 Unquoted investments

Unquoted investments were reclassified to Financial Assets measured at fair value through other comprehensive income as per SLFRS 09. [Note 10].

9.3 Movement in impairment during the year - financial assets at amortised cost**Stage 1**

Opening balance as at 01.01.2018
 Charge / (write back) to income statement
 Closing balance as at 31 December 2018

Year ended 31 December	
2018	2017
394,841	-
(358,466)	-
36,375	-

Stage 2

Opening balance as at 01.01.2018
 Charge / (write back) to income statement
 Closing balance as at 31 December 2018

-	-
910,550	-
910,550	-

Stage 3

Opening balance as at 01.01.2018
 Charge / (write back) to income statement
 Closing balance as at 31 December 2018

-	-
-	-
-	-
946,925	-

10. Unquoted investments

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

Year ended 31 December	
2018	2017
500,000	-
80,000	-
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 its fair value.



HABIB BANK LIMITED - SRI LANKA BRANCH**Notes to the financial statements (contd)****11. Other assets**

	Year ended 31 December	
	2018	2017
Deposits and prepayments	2,003,452	31,566,241
Prepaid staff cost	12,028,488	13,040,073
Other assets*	39,897,795	15,283,416
	53,929,735	59,889,730

*Inward and Outward net cheque clearing balance to be settled by the Lanka Clear (Private) Limited amounting to Rs. 27,580,527/- (2017- Rs. 15,115,851/-) is included in the Other Assets balance as at 31 December 2018.

12. Property, plant and equipment**12.1 Gross carrying amounts**

	Balance As at 01.01.2018	Additions	Disposals / transfers and write-offs	Balance As at 31.12.2018
At cost / revaluation				
Freehold land	183,375,000	-	-	183,375,000
Freehold building	56,330,477	-	-	56,330,477
Motor vehicles	23,250,000	-	-	23,250,000
Computer, furniture and fittings	185,039,697	1,183,494	(23,276,339)	162,946,852
	447,995,174	1,183,494	(23,276,339)	425,902,329
Leasehold building improvements	45,968,456	-	(1,180,463)	44,787,993
	45,968,456	-	(1,180,463)	44,787,993
Total gross carrying amount	493,963,630	1,183,494	(24,456,802)	470,690,322
	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



HABIB BANK LIMITED - SRI LANKA BRANCH**Notes to the financial statements (contd)****12. Property, plant and equipment (contd)****12.2 Accumulated depreciation**

	Balance As at 01.01.2018	Charge for the year	Disposals/ transfers and write-offs	Balance as at 31.12.2018
At cost / revaluation				
Freehold building	822,644	3,268,076	-	4,090,720
Motor vehicles	21,400,000	1,625,000	-	23,025,000
Computer, furniture and fittings	121,168,744	27,873,047	(22,659,576)	126,382,215
	<u>143,391,388</u>	<u>32,766,123</u>	<u>(22,659,576)</u>	<u>153,497,935</u>
Leasehold building improvements	31,451,153	6,164,371	(1,141,115)	36,474,408
	<u>31,451,153</u>	<u>6,164,371</u>	<u>(1,141,115)</u>	<u>36,474,408</u>
Total accumulated depreciation	174,842,541	38,930,494	(23,800,691)	189,972,343
	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
	<u>113,523,570</u>	<u>38,219,469</u>	<u>(8,351,650)</u>	<u>143,391,389</u>
Leasehold building improvements	24,039,672	7,411,480	-	31,451,152
	<u>24,039,672</u>	<u>7,411,480</u>	<u>-</u>	<u>31,451,152</u>
Total accumulated depreciation	137,563,242	45,630,950	(8,351,650)	174,842,541

12.3 Net book values

	Year ended 31 December	
	2018	2017
At cost / revaluation		
Freehold land	183,375,000	183,375,000
Freehold building	52,239,757	55,507,833
Motor vehicles	225,000	1,850,000
Computer, furniture and fittings	36,564,637	63,870,953
	<u>272,404,394</u>	<u>304,603,786</u>
Leasehold building improvements	8,313,585	14,517,302
Total carrying amount of property, plant and equipment	280,717,979	319,121,088



HABIB BANK LIMITED - SRI LANKA BRANCH**Notes to the financial statements (contd)****12. Property, plant and (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 meter	Rs. 6,000

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

	Year ended 31 December	
	2018	2017
Reconciliation of fair value		
As at 1 January	239,705,477	118,105,477
Additions during the year		-
Transfer of depreciation related to revalued building	-	(7,480,000)
Revaluation surplus	-	129,080,000
As at 31 December	239,705,477	239,705,477

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

- 12.5** During the financial year, the Bank acquired Property, plant and equipment to the aggregate value of Rs 1,183,494 (2017- Rs.7,460,334). Cash payments amounting to Rs. 1,183,494 (2017- Rs.7,460,334) 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. 77,027,468 (2017 - Rs. 35,727,117).

13. Due to banks

	Year ended 31 December	
	2018	2017
Deposits from other banks	46,649,008	63,544,657
	46,649,008	63,544,657



HABIB BANK LIMITED - SRI LANKA BRANCH**Notes to the financial statements (contd)****14. Financial liabilities at amortised cost - Due to customers****14.1 Due to customers - by products**

	Year ended 31 December	
	2018	2017
Demand deposits	288,570,328	357,902,988
Savings deposits	651,509,516	657,354,699
Time deposits	1,196,004,116	1,375,908,001
Call deposits	407,924	80,422,431
Margin balances	3,491,612	7,028,249
	2,139,983,496	2,479,216,368

14.2 Due to customers - by currency

Local currency - Sri Lankan Rupees	1,708,756,995	2,029,067,105
Foreign currency - United States Dollar	30,231,134	44,183,256
Foreign currency - others	400,995,367	405,966,007
	2,139,983,496	2,479,216,368

15. Financial liabilities at amortised cost - Borrowings

	Year ended 31 December	
	2018	2017
Short term loans		
Central Bank of Sri Lanka - Repo Borrowings	-	30,021,654
	-	30,021,654

16. Other liabilities

	Year ended 31 December	
	2018	2017
Accrued expenses	42,146,478	28,707,563
Bills payable	8,128,829	13,089,752
Other liabilities	1,101,562	2,259,900
SLFRS 09 provision on unfunded facilities [Note 16.1]	12,275,317	-
	63,652,186	44,057,215



HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

16. Other liabilities

16.1 Provision on unfunded facilities

	Year ended 31 December 2018
Stage 1	
Opening balance as at 1 January 2018	90,057
Charge to income statement	21,041
Closing balance as at 31 December 2018	111,008
Stage 2	
Opening balance as at 1 January 2018	6,301,478
Charge to income statement	5,862,741
Closing balance as at 31 December 2018	12,164,219
	12,275,317

17. Employee benefit liability

	Year ended 31 December	
	2018	2017
As at 1 January	45,228,202	46,938,173
Current service cost	3,129,031	3,272,987
Interest cost	4,748,961	5,163,199
Actuarial loss / (gains) on retirement benefit obligation	7,169,649	(1,556,606)
(-) Payments during the year	(10,377,445)	(8,589,551)
As at 31 December	49,898,398	45,228,202

- 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 2018, carried out by Messrs. Actuarial and Management Consultants (Private) Limited, actuaries.

The key assumptions used by the management include the following.

	Year ended 31 December	
	2018	2017
Rate of interest	12.0%	10.5%
Rate of salary increase	10%	10%
Retirement age	55 Years	55 Years
Average future working life of employees	6.38 Years	9.06 Years

17.2 Net benefit expense categorised under personal expenses,

	Year ended 31 December	
	2018	2017
Current service cost	3,129,031	3,272,987
Interest cost	4,748,961	5,163,199
	7,877,992	8,436,186

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

17. Employee benefit liability (contd)

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

	Year ended 31 December	
	2018	2017
1% increase in discount rate	(1,763,875)	(1,859,789)
1% decrease in discount rate	1,884,847	2,030,267
1% increase in salary escalation rate	1,989,939	2,103,723
1% decrease in salary escalation rate	(1,891,851)	(1,960,816)

18. Deferred tax asset

	Year ended 31 December	
	2018	2017
As at 1 January	24,276,429	33,163,331
Release / (charge) during the Year	44,996,785	(8,886,902)
As at 31 December	69,273,214	24,276,429

18.1.1 Deferred tax liabilities

Accelerated depreciation allowance for tax purposes -		
Property plant and equipment	(7,094,649)	(9,167,108)
Revaluation of property plant and equipment	(32,989,199)	(15,251,698)
	<u>(40,083,848)</u>	<u>(24,418,806)</u>

18.1.2 Deferred tax assets

Employee benefit liability - gratuity	13,971,551	12,663,896
Loan impairment	17,121,808	4,848,523
Tax losses	78,263,703	31,182,816
	<u>109,357,062</u>	<u>48,695,235</u>
Net deferred tax asset	<u>69,273,214</u>	<u>24,276,429</u>

Deferred tax has been determined based on the effective tax rate of 28% (2017 - 28%) except for revaluation gain on Land which is 10%, as per the Inland Revenue Act, No. 24 of 2017 with effect from 1st April 2018.

19. Assigned capital

	Year ended 31 December	
	2018	2017
Assigned capital	4,938,390,143	4,938,390,143
	<u>4,938,390,143</u>	<u>4,938,390,143</u>

- 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

	Year ended 31 December	
	2018	2017
As at 1 January	68,121,518	67,859,739
Transfer from the profits during the year [Note 24]	-	261,779
As at 31 December	<u>68,121,518</u>	<u>68,121,518</u>

- 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. No transfers made during the year due to incurred loss after tax during the year.

HABIB BANK LIMITED - SRI LANKA BRANCH**Notes to the financial statements (contd)****21. Revaluation reserve**

	Year ended 31 December	
	2018	2017
As at 1 January	222,649,224	96,622,625
Revaluation of land and building		129,079,999
Deferred tax related to revaluation of land and building	(17,737,500)	(3,053,400)
As at 31 December	204,911,724	222,649,224

22. Exchange equalisation of capital

	Year ended 31 December	
	2018	2017
As at 01 January	557,062,966	506,134,837
Exchange differences on translations of foreign currency capital	467,655,005	50,928,129
Realisation of exchange equalisation reserve	(727,835,081)	-
As at 31 December	296,882,890	557,062,966

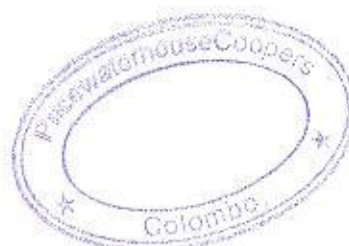
Exchange Equalisation of Capital Reserve represents the net appreciation/depreciation of foreign currency capital maintained in Foreign Currency Banking Unit due to exchange rate fluctuations. It requires to reflect the Assigned Capital at the exchange rate prevailed on the date the capital was brought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

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

23. Exchange equalisation of reserves

	Year ended 31 December	
	2018	2017
As at 01 January	10,289,766	9,871,054
Exchange differences on translations of foreign currency reserves	(1,970,170)	418,712
As at 31 December	8,319,596	10,289,766

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



HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

24. Retained earnings

	Year ended 31 December	
	2018	2017
As at 1 January	109,931,346	103,836,784
Impact of adopting SLFRS 09	(39,213,775)	-
Deferred tax on transitional adjustment	10,979,857	-
Balance as at 1 January - adjusted	81,697,428	103,836,784
Profit for the Year	(151,800,088)	5,235,585
Other comprehensive Income for the Year	(7,169,649)	1,120,756
Deferred tax recognised in other comprehensive income	2,007,502	-
Transfers to statutory reserve fund [Note 20]	-	(261,779)
Realisation of exchange equalisation reserve	727,835,081	-
As at 31 December	652,570,273	109,931,346

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

25. Interest income

	Year ended 31 December	
	2018	2017
Placements with banks	53,196,636	45,282,012
Reverse repurchase agreements	9,907,828	27,243,595
Financial assets	29,716,371	49,746,197
Other financial assets	116,242,965	93,214,636
Loans and advances to customers	258,452,904	444,430,495
	467,516,704	659,916,935

Interest Income earned from Government Securities (Treasury Bills, Reverse Repurchase Agreements and Standing Deposit Facilities) for the year 2018 amounts to Rs.49,933,293 (2017 - Rs. 76,989,792) and has been grossed up by adding notional tax receivable.

26. Interest expense

	Year ended 31 December	
	2018	2017
Due to customers	168,057,138	191,314,564
Money market and other borrowings	170,268	17,301,874
	168,227,406	208,616,438

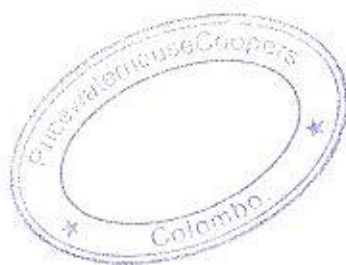
27. Fees and commission income

	Year ended 31 December	
	2018	2017
Commission on trade finance facilities	1,189,102	15,961,952
Commission on Guarantees	1,526,338	2,805,741
Commission on Remittances	224,839	4,574,689
	2,940,279	23,342,382



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

28. Other operating income / (expenses)	Year ended 31 December	
	2018	2017
Dividend income	1,801,700	1,563,750
Foreign exchange gain	(54,785,899)	36,967,518
Other income	13,897,756	18,042,516
	(39,086,443)	56,573,784
29. Impairment charges and other losses	Year ended 31 December	
	2018	2017
Individual impairment charge / (reversal)	69,838,349	76,453,846
Collective impairment charge / (reversal)	3,652,817	(4,305,422)
	73,491,166	72,148,424
Impairment on loans and receivables from other customers	67,055,300	72,148,424
Impairment on investment and placements	552,084	-
Impairment on Off balance sheet obligations	5,883,782	-
	73,491,166	72,148,424
30. Personnel expenses	Year ended 31 December	
	2018	2017
Salaries	101,119,112	104,983,304
Employee benefits - defined benefit plan [Gratuity] [Note 17.2]	7,877,992	8,436,186
Employee benefits - defined contribution plan		
Employee Provident Fund (EPF)	11,663,651	9,403,149
Employee Trust Fund (ETF)	2,126,853	2,217,471
Bonus	27,266,682	33,103,001
Other allowances	76,708,167	75,943,304
Amortisation of staff loan day 01 impact	3,089,387	3,576,683
	229,851,844	237,663,098



HABIB BANK LIMITED - SRI LANKA BRANCH**Notes to the financial statements (contd)****31. Other operating expenses**

	Year ended 31 December	
	2018	2017
Auditors fees and expenses	2,900,000	2,750,000
Non audit fees and expenses	706,420	658,458
Legal fees	4,421,171	2,836,519
Marketing expenses	2,178,750	4,222,589
Transport	5,987,831	5,485,374
Security charges	7,059,041	7,439,988
Rent	25,950,013	24,182,150
License fee	2,200,000	2,200,000
Subscription	1,461,079	1,345,629
Other expenses	56,082,366	65,867,295
	108,954,671	116,988,008

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

	Year ended 31 December	
	2018	2017
Value Added Tax (VAT)	8,641,364	37,020,805
Nations Building Tax (NBT)	1,348,328	5,288,877
Debt Repayment Levy (DRL)	2,737,881	
	12,727,573	42,309,682

Debt Repayment Levy is calculated at 7% on value addition computed for VAT on Financial Services by Banks and Financial Institutions with effect from 01 October 2018 and carries until 31 December 2021.

32.2 Income tax expense

	Year ended 31 December	
	2018	2017
Current income tax		
Current income tax on profit for the year [Note 32.3]	-	6,857,729
Under / (over) provision of current taxes in respect of prior years	734,401	(1,014,465)
	734,401	5,843,264
Deferred income tax		
Deferred tax charge / (reversal) for the year	(49,746,927)	5,397,652
Income tax expense reported in the income statement	(49,012,526)	11,240,916

Deferred income tax

Deferred tax charge for the year

Income tax expense reported in the

Statement of comprehensive income

15,729,998	3,489,250
15,729,998	3,489,250

32.3 Reconciliation of accounting profit and taxable income

Accounting profit before taxation	(200,812,613)	16,476,501
Add: Disallowable expenses	60,056,060	123,173,186
Less: Allowable expenses and exempt income	(34,288,182)	(86,315,618)
	(175,044,734)	53,334,069
Less: Brought forward tax losses	-	(13,187,940)
Taxable income	(175,044,736)	40,146,129
Current income tax on profit for the year @ 28%	(49,012,526)	11,240,916

Effective income tax rate

- 12%

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

33. Cash flow information

		Year ended 31 December	
		2018	2017
Cash flows from operating activities			
33.1 Reconciliation of Operating Profit			
Profit / (loss) before tax		(200,812,614)	16,476,501
Gain on disposal of property, plant and equipment		(2,343,890)	(5,000)
Depreciation of property plant and equipment	12.2	38,930,494	45,630,949
Impairment charge / (reversal) for loans and advances	29	67,055,300	72,148,424
Impairment charge / (reversal) for Investment and unfunded f	29	6,435,866	-
Dividend income	28	(1,801,700)	(1,563,750)
Gratuity expense	17.2	7,877,992	8,436,186
		(84,658,553)	141,123,310
33.2 Increase / (decrease) in operating assets			
Reverse repurchase agreements		650,388,745	(350,265,940)
Placement with banks		(475,478,532)	(441,544,835)
Balances with Central Bank of Sri Lanka		1,287,919,195	(52,445,773)
Other financial assets		(162,725,450)	1,972,446,742
Loans and advances to customers		263,489,736	1,020,723,401
Other assets		(10,319,829)	24,181,868
		1,553,273,865	2,173,095,463
33.3 (Decrease) / increase in operating liabilities			
Due to banks (Vostro)		(16,895,649)	(31,517,556)
Due to customers		(339,232,871)	(870,907,790)
Other borrowing		(30,021,654)	(1,324,431,471)
Other liabilities		7,319,654	(13,709,297)
Employee benefit liability		(10,377,445)	(8,589,551)
		(389,207,965)	(2,249,155,665)

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.

		Year ended 31 December	
		2018	2017
Short term employee benefits		34,588,717	57,520,495
		34,588,717	57,520,495
Deposits		9,716,563	6,930,572
		9,716,563	6,930,572
Interest expense		74,007	252,533
		74,007	252,533



HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

34. Related party disclosure (contd)

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

	Year ended 31 December	
	2018	2017
Balances due from Banks (Nostro Balances)		
Habib Allied International Bank- UK	2,346,962	421,965,770
Habib Bank Limited - Belgium	6,700,042	189,255,975
Habib Bank Limited - Singapore	981,686	294,378
Habib Bank Limited - Bangladesh	2,133,309	1,788,061
	12,161,999	613,304,184
Balances due to Banks (Vostro Balances)		
Habib Bank Limited - Male	43,194,906	36,592,952
Habib Bank Limited - Central Branch - Oman	257,300	471,808
Habib Bank Limited - Deira Branch - Dubai	112,078	112,078
Habib Bank Limited - HO Treasury - Karachi	3,084,724	26,345,165
	46,649,008	63,522,002

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

	Year ended 31 December	
	2018	2017
Liabilities		
Saving deposit	107,882,340	110,825,853
	107,882,340	110,825,853
Items in the statement of comprehensive income		
Employee benefits - Employee Provident Fund	11,663,651	9,403,149
Interest expense	13,348,785	11,879,774
	25,012,436	21,282,923



HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

35. Maturity analysis of assets and liabilities

As at 31 December	Within 12 Months	After 12 Months	2018 Total	Within 12 Months	After 12 Months	2017 Total
Assets						
Cash and cash equivalents	2,223,464,095	-	2,223,464,095	674,753,706	-	674,753,706
Balances with Central Bank of Sri Lanka	70,797,200	-	70,797,200	162,222,177	1,196,494,218	1,358,716,395
Reverse repurchase agreements	-	-	-	650,338,745	-	650,338,745
Placements with financial institutions	1,126,898,395	-	1,126,898,395	651,419,833	-	651,419,863
Financial assets at amortised cost	189,972,687	-	189,972,687	488,451,436	-	488,451,406
Other financial assets at amortised cost	648,003,985	210,180,000	858,183,985	383,955,653	13,971,086	397,926,739
Loans and advances to customers	2,008,237,227	1,507,110,743	3,515,347,970	2,027,122,639	1,851,242,643	3,878,365,252
Other assets	32,931,382	20,998,354	53,929,736	37,418,426	22,471,304	59,889,730
Income tax receivable	80,793,974	-	80,793,974	65,203,736	-	65,203,706
Property, plant and equipment	-	280,717,978	280,717,978	-	319,121,088	319,121,088
Deferred tax asset	-	69,273,214	69,273,214	-	24,276,429	24,276,429
Total assets	6,381,098,944	2,088,280,289	8,469,379,234	5,140,936,292	3,427,576,767	8,568,513,059
Liabilities						
Due to banks	46,649,008	-	46,649,008	63,544,657	-	63,544,657
Due to customers	2,139,983,496	-	2,139,983,496	2,479,216,368	-	2,479,216,368
Other borrowings	-	-	-	30,021,654	-	30,021,654
Other liabilities	63,652,185	-	63,652,185	44,057,215	-	44,057,215
Employee benefit liability	-	49,898,398	49,898,398	-	45,228,202	45,228,202
Total liabilities	2,250,284,689	49,898,398	2,300,183,087	2,616,839,894	45,228,202	2,662,068,096

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

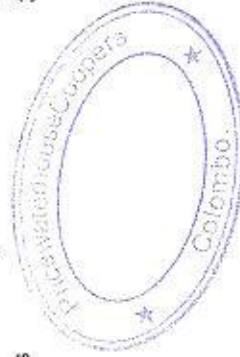
36. Fair value measurement

36.1 Fair value measurement hierarchy for assets as at 31 December 2018

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 Positions. Please refer Note 2.3.2 of the Financial Statements on accounting policies of fair value measurement.

Bank	Date of Valuation	Total	Quoted prices in active market (Level 1)		Significant observable inputs (Level 2)		Significant unobservable inputs (Level 3)	
			Rs.		Rs.		Rs.	
As At 31 December 2018 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 2018 Other financial assets Loans and advances to customers	31 December 2018	859,130,909	-	-	-	859,130,909	-	-
	31 December 2018	3,515,347,971	-	-	-	3,515,347,971	-	-
		4,374,478,881	-	-	-	4,374,478,881	-	-



Notes to the financial statements (contd)

36. Fair value measurement (contd)

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

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

Assets	2018		2017	
	Fair Value	Carrying Value	Fair Value	Carrying Value
	Rs.	Rs.	Rs.	Rs.
Other financial assets	859,130,909	859,130,909	397,823,739	397,823,739
Loans and advances to customers	3,515,347,971	3,515,347,971	3,878,365,252	3,878,365,252
	4,374,478,881	4,374,478,881	4,276,188,991	4,276,188,991

Assets for which fair value approximates carrying value

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

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

Assets

Cash and cash equivalents
Balances with Central Bank of Sri Lanka
Reverse repurchase agreements

Fixed rate financial instruments

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

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



Liabilities

Due to Banks
Other Borrowings
Due to Customers

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

37. Risk management

37.1 Risk management framework

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

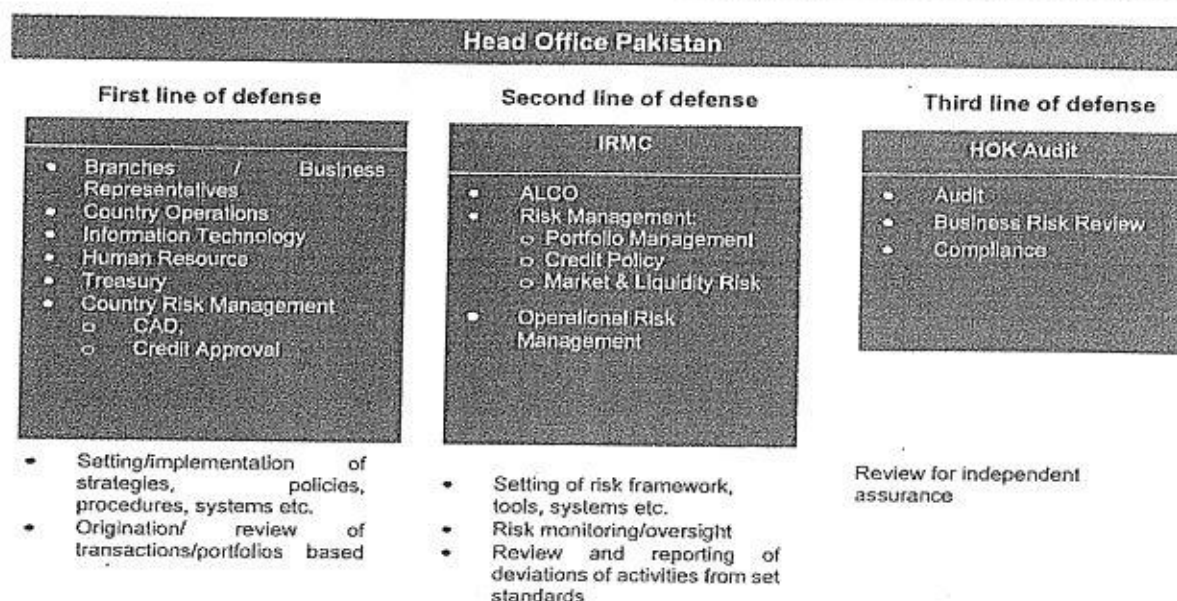
37.1.1.1 Strategy

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



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

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

37. Risk management

37.1 Risk management framework (contd)

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

The CM / RGM is ultimately responsible for any financial loss or reductions in Capital suffered by the Bank. Therefore, it is the duty of the CM/RGM to 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.

Risk Management Group

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

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

Country / Regional Risk Manager (RRM)

RRM shall be responsible for managing following significant areas:

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

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

37. Risk management

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.

Pillar II - Supervisory Review Process (SRP)

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

Credit Risk

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

Credit Concentration Risk

Impact of default of Large borrowers on CAR

Exchange Rate Risk

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

Interest Rate Risk

Impact of change in interest rate on CAR for banking book

Liquidity Risk

Impact of reduction in liquid liabilities and assets on liquidity ratio

Impact of loss of large depositors on Liquid Asset Ratio

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

Other Stress Test

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

Pillar III - Disclosures

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

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

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

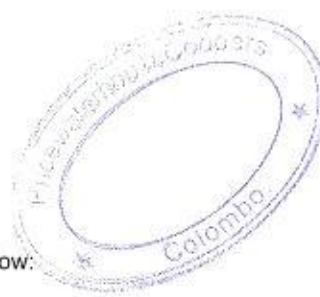
The Credit Risk Management Structure of HBL Sri Lanka comprises of the following.

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 and enforceability of collaterals.

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

Credit risk assessment and analytics

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

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

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

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

37. Risk management (contd)

37.2 Credit risk (contd)

37.2.3 Credit Risk Management (contd)

Credit Risk Monitoring and Reporting

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

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

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

The total gross loans and receivables from all credit customers of the Bank stood at Rs. 3,515,347,970 Mn (2017 - Rs. 3,878Mn) as at 31 December 2018. Please refer Note 8.1 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 recognized on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the bank.

	Year ended 31 December	
	2018	2017
Letter of credits	-	13,183,800
Guarantees	439,781,705	755,656,170
Acceptances	-	47,434,555
Undrawn commitments	497,469,711	1,098,817,367
	937,251,416	1,915,091,892

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)

37. Risk management (contd)

37.2.4.2 Analysis of risk concentration

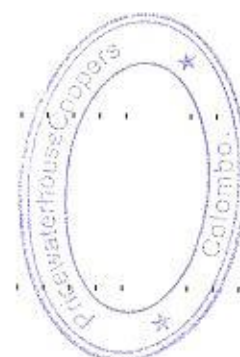
The following table shows the risk concentration by industry for the risk concentration related components of the statement of financial position.

As at 31 December 2018

	Agriculture and Fisheries	Financial Services	Government	Manufacturing	Construction and Housing	Traders	Other	Total
Cash and cash equivalents	-	2,223,464,095	-	-	-	-	-	2,223,464,095
Balances with Central Bank of Sri Lanka	-	-	70,797,200	-	-	-	-	70,797,200
Reverse repurchase Agreements	-	-	-	-	-	-	-	-
Placements with financial institutions	-	1,126,898,395	-	-	-	-	-	1,126,898,395
Financial assets - held to maturity	-	-	189,972,687	-	-	-	-	189,972,687
Other financial assets								
Sri Lanka Development Bonds	-	-	-	-	-	-	-	-
Trust certificates	-	858,550,909	-	-	-	-	-	858,550,909
Debentures	-	-	-	-	-	-	-	-
Unquoted investments	-	-	-	-	-	-	-	-
Total other financial assets	-	4,208,913,399	260,769,887	-	-	-	580,000	580,000
Loans and advances to customers								
Gross loans and advances	349,106,029	283,537,023	1,759,845,525	24,241,609	400,014,937	912,522,273	3,729,267,396	3,729,267,396
Allowance for impairment losses	(7,754,309)	(3,632,191)	(55,282,438)	(1,543,942)	(122,780,943)	(22,925,602)	(213,919,425)	(213,919,425)
Net loans and advances	341,351,720	279,904,832	-	1,704,563,087	22,697,667	277,233,993	889,596,671	3,515,347,971
Total	341,351,720	4,488,818,231	260,769,887	1,704,563,087	22,697,667	277,233,993	890,176,671	7,985,611,257

As at 31 December 2017

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
Other financial assets								
Sri Lanka Development Bonds	-	-	-	-	-	-	-	-
Trust certificates	-	146,798,793	-	-	-	-	-	146,798,793
Debentures	-	250,547,945	-	-	-	-	-	250,547,945
Unquoted investments	-	-	-	-	-	-	-	-
Total other financial assets	-	397,346,738	-	-	-	-	580,000	580,000
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	4,001,197,473	4,001,197,473
Allowance for impairment losses	(196,669)	(179,152)	(8,700,306)	(154,824)	(96,983,748)	(16,617,524)	(122,832,223)	(122,832,223)
Net loans and advances	45,395,105	41,351,872	2,008,207,794	35,736,613	494,047,516	1,253,626,350	3,878,365,250	3,878,365,250
Total	45,395,105	1,764,872,179	2,497,556,546	35,736,613	494,047,516	1,254,206,350	8,100,022,103	8,100,022,103



HABIB BANK LIMITED - SRI LANKA BRANCH**Notes to the financial statements (contd)****37. Risk management (contd)****37.2.4.3 Credit quality analysis****Credit quality of financial assets**

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

As at 31 December 2018	Neither past due nor impaired	Past due but not individually impaired	Individually Impaired	2018 Total
Cash and cash equivalents	2,223,464,095	-	-	2,223,464,095
Balances with Central Bank of Sri Lanka	70,797,200	-	-	70,797,200
Placements with financial institutions	1,126,898,395	-	-	1,126,898,395
Financial assets at amortised cost				
- Gross loans and advances to customers				
Term loans	2,081,175,549	3,832,929	537,630,060	2,622,638,538
Overdraft	356,102,810	13,519,690	264,599,849	634,222,349
Short term loans	2,775,000	-	48,259,458	51,034,458
Trade finance loans	337,000,000	-	32,693,673	369,693,673
Staff loans	51,678,377	-	-	51,678,377
- Debt and other instruments	1,048,523,595	-	-	1,048,523,595
Financial assets at fair value through other comprehensive income	580,000	-	-	580,000
Total	7,298,995,021	17,352,619	883,183,041	8,199,530,681
As at 31 December 2017	Neither past due nor impaired	Past due but not individually impaired	Individually Impaired	2017 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
Gross loans and advances to customers 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	453,128,235
Trade finance loans	59,840,414	33,563,868	32,693,673	126,097,955
Staff loans	51,353,292	-	-	51,353,292
Debt & other instruments	886,378,145	-	-	886,378,145
Total	7,093,254,237	809,605,919	319,994,172	8,222,854,329

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)****37. Risk management (contd)****37.2.4.3 Credit quality analysis****Maximum Exposure to credit risk by risk rating (SLFRS 09)**

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

	Carrying Amount	Subject to 12 month ECL (Stage 1)	Subject to Lifetime ECL (Stage 2)	Subject to Lifetime ECL (Stage 3)
Investments, Placements & Money at Call				
Rating 1-3: Investment Grade	3,970,958,989	3,970,958,989	-	-
Rating 4-7: Moderate Risk	-	-	-	-
Rating 8-11: High Risk	250,912,671	-	250,912,671	-
Rating 12-14: Extreme Risk	-	-	-	-
	4,221,871,660	3,970,958,989	250,912,671	-
Loans & advances to customers				
Rating 1-3: Investment Grade	173,198,155.10	173,198,155	-	-
Rating 4-7: Moderate Risk	1,070,786,329.61	787,249,307	283,537,023	-
Rating 8-11: High Risk	1,611,120,083.97	-	1,611,120,084	-
Rating 12-14: Extreme Risk	874,162,827.27	-	-	874,162,827
	3,729,267,396	960,447,462	1,894,657,107	874,162,827

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

- Internal ratings 8 to 11 or facilities with external ratings B to C will be directly categorized in Stage 2
- 2 or more grade: for facilities which were internally rated 3 to 4 (or external ratings of AAA to BBB)
- 1 or more grade: for other facilities which were internally rated 5 to 7 (or external ratings from BBB to BB and below) at inception

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



HABIB BANK LIMITED - SRI LANKA BRANCH**Notes to the financial statements (contd)****37. Risk management (contd)****Credit Quality Analysis (contd)****37.2.4.3 Aging of past due but not individually impaired Financial Assets**

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

	Past due below 3 months but not impaired	Past due 3-12 months but not impaired	Past due more than 12 months but not impaired	Total past due but not impaired
Term loans	18,789,427	-	-	18,789,427
Overdraft	13,519,768	-	-	13,519,768
Short term loans	-	-	-	-
Trade finance loans	-	-	-	-
Total	32,309,195	-	-	32,309,195

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

Bank does not rebut the 30 DPD presumption as a key SICR criterion. Thus any financial instrument which 30 DPD are classified as Stage 2. As of 31.12.2018 no financial instrument is more than 30 DPD except for stage 3 classified facilities.

Definition of Default

The Bank has set out the following definition of default

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

Age analysis of Impaired financial Assets

As at 31 December 2018	Less than 3 months	3 to 6 months	6 to 12 months	More than 12 months
Cash and cash equivalents	-	-	-	-
Balances with Central Bank of Sri Lanka	-	-	-	-
Placements with financial institutions	-	-	-	-
Financial Assets at amortised cost	-	-	-	-
- Gross loans and advances to customers				
Term loans	496,380,952.66	41,249,107.51	-	-
Overdraft	-	15,009,590.60	-	249,590,258.49
Short term loans	-	-	-	48,259,458.34
Trade finance loans	-	-	-	32,693,673.00
Staff loans	-	-	-	-
- Debt & other instruments	-	-	-	-
Financial Assets at fair value through other comprehensive income	-	-	-	-
Total	496,380,952.66	56,258,698.11	-	330,543,389.83

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

37. Risk management (contd)

Credit Quality Analysis (contd)

37.2.4.3 Aging of past due but not individually impaired Financial Assets

Age analysis of impaired financial assets (contd)

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

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

37.2.4.4 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 2018

	Maximum exposure to credit risk	Net collateral value	Net exposure
Cash and cash equivalents	2,223,464,095	-	2,223,464,095
Balances with Central Bank of Sri Lanka	70,797,200	-	70,797,200
Reverse repurchase agreements	-	-	-
Placements with financial institutions	1,126,898,395	-	1,126,898,395
Other financial assets	859,130,909	859,130,909	-
Loans and advances to customers	3,515,347,971	3,622,185,570	-
Contingent liabilities including financial guarantees and letters of credits	439,781,705	355,801,552	83,980,153
	8,235,420,275	4,837,118,031	3,505,139,843

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

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

37. Risk management (contd)

37.2.4.4 Collateral and other credit enhancements (contd)

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

In order to determine the fair value of collaterals for calculation of ECL, the bank conducts revaluations of mortgaged property, plant and machinery every 3 years through an external independent valuer as specified in CBSL direction No. Direction No. 03 of 2008 – Classification of Loans and Advances, Income Recognition and Provisioning and in line with bank's internal policies and procedures.

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

37.3 Market risk

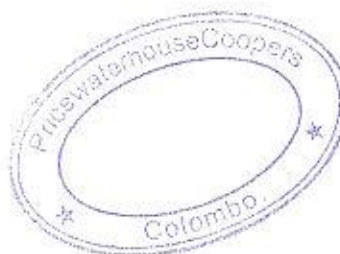
Introduction

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 comprises of,

- 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)

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 2018

	Total	< 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	Rs.										
Cash and Cash Equivalents	2,223,464,095	2,046,449,670									177,014,425
Balances with Central Bank of Sri Lanka	70,797,200										70,797,200
Reverse Repurchase Agreements	1,126,898,395	301,407,005	825,491,340								50
Placements with Financial Institutions	189,972,687		99,929,687								
Financial Assets - Held to Maturity	859,130,909	60,550,909	142,900,000	162,300,000	325,200,000	167,600,000					
Other Financial Assets	3,741,295,884	383,758,653	2,400,803,887	562,883	1,376,943	5,280,454	1,363,000	14,677,660	27,424,251	16,879,133	580,000
Gross Loans and Advances to Customers	8,211,559,170	2,792,186,237	3,469,124,914	162,862,883	416,619,943	172,880,454	1,363,000	14,677,660	27,424,251	16,879,133	1,137,563,695
Financial Liabilities											
Due to Banks	46,649,008										46,649,008
Due to Customers	2,139,983,496	712,219,290	874,094,129	43,161,350	218,446,787						292,061,943
Other Borrowings	2,186,632,504	712,219,290	874,094,129	43,161,350	218,446,787						338,710,948
Total Interest Rate Sensitivity Gap	6,024,926,665	2,079,946,947	2,595,030,785	119,701,533	198,173,156	172,880,454	1,360,000	14,677,660	27,424,251	16,879,133	798,852,747

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

Increase/ (Decrease) in Interest Rate	Sensitivity to profit before tax
	Rs.
+1%	(13,930,180)
-1%	14,318,439

HABIB BANK LIMITED - SRI LANKA BRANCH**Notes to the financial statements (contd)****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 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	850,388,745	650,388,745.41	-	-	-	-	-	-	-	-	-
Placements with Financial Institutions	651,419,863	651,419,863	-	-	-	-	-	-	-	-	-
Financial Assets - Held to Maturity	488,451,406	392,894,806	95,556,600	-	-	-	-	-	-	-	-
Other Financial Assets	397,926,739	51,696,793	37,500,000	16,200,000	286,347,945	5,600,000	-	-	-	-	-
Gross Loans and Advances to Customers	4,014,237,547	1,287,735,352	2,631,558,131	23,414,883	9,823,762	5,659,320	929,363	4,691,893	39,246,617	11,178,225	580,000
	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
+1%	Rs. (9,185,274)
-1%	9,507,005



HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

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.

	2018	2017
(USD)	-413,000	-416000 (Oversold)

Please refer Note 8.2 foreign currency advances and Note No 14.2 foreign currency deposits balance as at 31 December 2018.

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 unfavorable 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 2018.

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 2018. Balances due within 12 months are equal to their carrying value as the impact of discounting is not significant.

As at 31 December 2018	On Demand (less than 15 Days) Rs.	15 Days to 3 Months Rs.	3 Months 12 Months Rs.	Over 1 Year Rs.	Total 2018 Rs.
Assets					
Cash and cash equivalents	2,223,464,095				2,223,464,095
Balances with Central Bank of Sri Lanka	70,797,200				70,797,200
Reverse repurchase agreements	-	-			-
Placements with financial institutions	301,407,005	825,491,340			1,126,898,395
Financial Assets- Held to Maturity		99,929,687	90,043,000		189,972,687
Other financial assets	54,650,909	107,200,000	487,100,000	210,180,000	859,130,909
Loans and advances to customers	1,058,288,670	172,496,296	777,452,262	1,507,110,743	3,515,347,970
Total financial assets	3,708,607,878	1,205,117,322	1,354,595,262	1,717,290,743	7,985,611,255
Liabilities					
Due to banks	46,649,008				46,649,008
Due to customers	975,958,250	902,417,108	261,608,137		2,139,983,496
Other borrowings	-				-
Total financial liabilities	1,022,607,258	902,417,108	261,608,137	-	2,186,632,504
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					
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		70,140,052	313,235,601	14,551,086	397,926,739
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	1,217,473,858	754,284,585	2,874,087,392	8,100,022,106
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

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)

37. Risk management (contd)

37.5 Operational risk management (ORM)



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

ORM strategy and policies

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

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

ORM risk structure

The key players involved in ORM at HBLSL are:

- Chief 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 27.750M as loss data for FY-2018 to CBSL & same has been fully recovered by the bank. 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)

38. Capital structure

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

Please refer Note 19 for the Assigned Capital.

39. Commitments and contingent liabilities

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

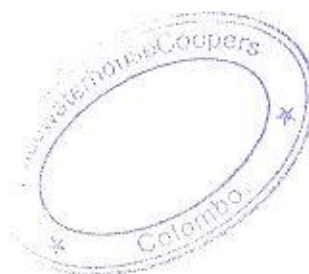
39.1 Legal claims

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

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

40. Events after the reporting date

No material events have taken place since 31 December 2018 that require disclosure or/and adjustments in these accounts.



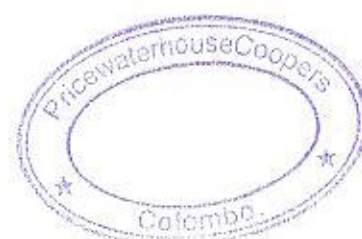
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Other information

Basel III disclosures

Key Regulatory Ratios - Capital and liquidity

Item	31 December 2018	31 December 2017
Regulatory capital (LKR '000)		
Common equity Tier 1	5,578,403	4,479,707
Tier 1 capital	5,578,403	4,479,707
Total capital	5,641,497	4,545,334
Regulatory Capital Ratios (%)		
Common Equity Tier 1 Capital Ratio (Minimum Requirement - 5.375%)	86%	24%
Tier 1 Capital Ratio (Minimum Requirement - 7.875%)	86%	24%
Total Capital Ratio (Minimum Requirement - 11.875%)	87%	24%
Leverage Ratio (Minimum Requirement - 3%)	58%	56%
Regulatory liquidity		
Statutory Liquid Assets (LKR'000)	2,350,490	2,514,205
Statutory Liquid Assets Ratio (Minimum Requirement - 20%)	112.62%	51.80%
Domestic Banking Unit (%)	112.62%	51.80%
Off-Shore Banking Unit (%)	1170.34%	23.88%
Liquidity Coverage Ratio (%) – Rupee (Minimum Requirement - 90%)	4945.19%	937.79%
Liquidity Coverage Ratio (%) – All Currency (Minimum Requirement - 90%)	3646.21%	589.42%



HABIB BANK LIMITED - SRI LANKA BRANCH

Other information (contd)

Basel III disclosures (contd)

Basel III Computation of Capital Ratios

Item	Period 31.12.2018	Period 31.12.2017
Common Equity Tier 1 (CET1) Capital after Adjustments	5,578,403	4,479,707
Common Equity Tier 1 (CET1) Capital	5,659,082	5,116,182
Equity Capital (Stated Capital)/Assigned Capital	4,938,390	4,938,391
Reserve Fund	68,122	67,860
Published Retained Earnings/(Accumulated Retained Losses)	659,275	111,474
Published Accumulated Other Comprehensive Income (OCI)	-6,705	-1,543
General and other Disclosed Reserves		
Unpublished Current Year's Profit/Loss and Gains reflected in OCI		
Ordinary Shares issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties		
Total Adjustments to CET1 Capital	80,679	636,475
Goodwill (net)		
Intangible Assets (net)		
Deferred tax assets (net)	69,273	24,276
Amount due to head office & branches outside Sri Lanka in Sri Lanka Rupees	-756	(1,105)
Amount due from head office & branches outside Sri Lanka in Foreign Currency (net)	12,162	613,304
Additional Tier 1 (AT1) Capital after Adjustments		
Additional Tier 1 (AT1) Capital		
Qualifying Additional Tier 1 Capital Instruments		
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties		
Total Adjustments to AT1 Capital		
Investment in Own Shares		
Others (specify)		
Tier 2 Capital after Adjustments	63,094	65,627
Tier 2 Capital	63,094	65,627
Qualifying Tier 2 Capital Instruments		
Revaluation Gains	48,311	48,311
Loan Loss Provisions	14,783	17,316
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties		
Total Adjustments to Tier 2		
Investment in Own Shares		
Others (specify)		
CET1 Capital	5,578,403	4,479,707
Total Tier 1 Capital	5,578,403	4,479,707
Total Capital	5,641,497	4,545,334

