HABIB BANK LIMITED
- SRI LANKA BRANCH

FINANCIAL STATEMENTS
31 DECEMBER 2020

[Confidential]

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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 31 December 2020, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

What we have audited

The financial statements of the Branch, which comprise:

- the statement of financial position as at 31 December 2020;
- the statement of profit or loss and other 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.

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.

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Other information (Contd.)

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.

Auditor's responsibilities for the audit of the financial statements (Contd.)

- 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.

PricewaterhouseCoopers

CHARTERED ACCOUNTANTS

COLOMBO

30 March 2021

HABIB BANK LIMITED - SRI LANKA BRANCH

Statement of financial position

(all amounts in Sri Lanka Rupees unless otherwise stated)

	Notes	Year ended 31 December 2020 Rs.	2019 Rs.
Assets			
Cash and cash equivalents	4	818,568,074	1,594,367,294
Balances with Central Bank of Sri Lanka	5	30,569,620	77,238,084
Placements with financial institutions	6	101,042,123	1,001,397,263
Derivative finanacial instruments	7	4,144,566	5,544,550
Financial assets at amortised cost			
- Loans and advances to customers	8	2,902,814,773	2,892,644,160
- Debt and other instruments	9	3,407,938,894	2,704,807,560
Financial assets measured at fair value through other comprehensive income	10	3,541,177,174	217,866,768
Other assets	11	82,140,230	37,986,710
Income tax receivable		30,203,466	90,186,207
Property, plant and equipment	12	287,348,858	263,278,928
Right of Use (ROU) asset	13	26,294,422	22,890,149
Total assets		**11,232,242,200**	**8,908,207,673**
Liabilities			
Due to banks	14	58,996,455	50,652,897
Fiancial liabilities at amortised cost -Due to customers	15	4,081,191,838	2,537,213,713
Financial liabilities measured at amortised cost - other borrowings	16	562,040,917	-
Other liabilities	17	104,011,547	66,069,300
Employee benefit liability	18	49,565,435	42,564,911
Deferred tax liabilities	19	56,916,924	12,417,060
Total liabilities		4,912,723,116	2,708,917,880
Equity			
Assigned capital	20	4,938,390,143	4,938,390,143
Statutory reserve fund	21	75,627,789	69,669,602
Revaluation reserve	22	200,853,903	204,911,724
Exchange equalisation of capital	23	-	91,107,948
Exchange equalisation of reserve	24	8,797,215	8,147,241
OCI reserve		17,779,158	17,197,758
Retained earnings	25	1,078,070,876	869,865,376
Total equity		6,319,519,084	6,199,289,793
Total liabilities and equity		**11,232,242,200**	**8,908,207,673**
Contingent liabilities and commitments	37.3.4.1	2,942,991,225	1,341,862,587

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 66 form an integral part of these financial statements.
30 March 2021
Colombo

HABIB BANK LIMITED - SRI LANKA BRANCH

Statement of profit or loss and other comprehensive income

(all amounts in Sri Lanka Rupees unless otherwise stated)

	Notes	Year ended 31 December 2020 Rs.	2019 Rs.
Interest income	26	702,345,932	704,962,729
Interest expense	27	(151,282,032)	(141,488,447)
Net interest income		551,063,900	563,474,282
Fees and commission income	28	3,754,280	1,211,181
Other operating income	29	21,999,151	18,510,129
Total operating income		576,817,332	583,195,592
Impairment charges and other losses	30	24,460,000	(35,044,716)
Net operating income		601,277,332	548,150,876
Personnel expenses	31	(234,290,900)	(228,650,381)
Depreciation of property plant and equipment and ROU assets	12.2/13	(33,116,653)	(43,512,368)
Other operating expenses	32	(90,706,536)	(84,208,358)
Total operating expenses		(358,114,089)	(356,371,107)
Operating profit before taxes and levies on financial services		243,163,243	191,779,769
Taxes and levies on financial services	33.1	(61,451,661)	(87,914,592)
Profit before income tax		181,711,582	103,865,177
Income tax expense	33.2	(62,547,846)	(72,903,496)
Profit for the year		**119,163,736**	**30,961,681**
Other comprehensive income			
Other comprehensive income to be reclassified to profit and loss in subsequent periods			
Net gain / (loss) on instruments at fair value through other comprehensive income		807,501	1,127,829
Tax expense relating to items that will be reclassified to profit or loss		(226,100)	(315,792)
Other comprehensive income not to be reclassified to profit and loss in subsequent periods			
Net gain / (loss) on instruments at fair value through other comprehensive income		-	22,757,945
Revaluation of land and buildings	12.4	38,707,887	-
Actuarial (loss) / gain on retirement benefit obligation	17	436,462	7,495,577
Exchange differences on translation of foreign currency capital	23	3,577,750	(23,290,252)
Exchange differences on translations of foreign currency reserves	24	649,974	(172,355)
Realisation exchange equalisation of capital	25	(94,685,698)	(182,484,690)
Tax expense relating to items that will not be reclassified to profit or loss	33.2	(43,114,018)	(8,470,985)
Other comprehensive income for the year net of tax		(93,846,244)	(183,352,724)
Total comprehensive income for the year		**25,317,492**	**(152,391,043)**

The notes to the financial statements from pages 08 to 66 form an integral part of these financial statements.

HABIB BANK LIMITED - SRI LANKA BRANCH

Statement of changes in equity

(all amounts in Sri Lanka Rupees unless otherwise stated)

	Notes	Assigned capital	Statutory reserve fund	Revaluation reserve	Exchange equalisation of capital	Exchange equalisation of reserve	OCI Reserve	Retained earnings	Total
As at 31 December 2018		**4,938,390,143**	**68,121,518**	**204,911,724**	**296,882,890**	**8,319,596**	**-**	**652,570,274**	**6,169,196,145**
Profit for the year	24	-	-	-	-	-	-	30,961,681	30,961,681
Other comprehensive income	22/23/24	-	-	-	(23,290,252)	(172,355)	23,885,774	7,495,577	7,918,744
Deferred tax recognised in other comprehensive income	21/24	-	-	-	-	-	(6,688,016)	(2,098,762)	(8,786,778)
Realisation of exchange equalisation reserve	22/24	-	-	-	(182,484,690)	-	-	182,484,690	-
Transfer to statutory reserve fund	20	-	1,548,084	-	-	-	-	(1,548,084)	-
As at 31 December 2019		**4,938,390,143**	**69,669,602**	**204,911,724**	**91,107,948**	**8,147,241**	**17,197,758**	**869,865,376**	**6,199,289,792**
Profit for the year	24	-	-	-	-	-	-	119,163,736	119,163,736
Other comprehensive income	22/23/24	-	-	38,707,887	3,577,750	649,974	807,500	436,462	44,179,573
Deferred tax recognised in other comprehensive income	21/24	-	-	(42,765,708)	-	-	(226,100)	(122,209)	(43,114,018)
Realisation of exchange equalisation reserve	22/24	-	-	-	(94,685,698)	-	-	94,685,698	-
Transfer to statutory reserve fund	20	-	5,958,187	-	-	-	-	(5,958,187)	-
As at 31 December 2020		**4,938,390,143**	**75,627,789**	**200,853,903**	**-**	**8,797,215**	**17,779,158**	**1,078,070,876**	**6,319,519,084**

The notes to the financial statements from pages 08 to 66 form an integral part of these financial statements.

HABIB BANK LIMITED - SRI LANKA BRANCH

Cash flow statement

(all amounts in Sri Lanka Rupees unless otherwise stated)

	Note	Year ended 31 December 2020 Rs.	2019 Rs.
Cash flows from operating activities			
Net cash flow from operating activities before income tax	34.1	198,272,084	185,847,946
Operating profit before changes in operating assets and liabilities		198,272,084	185,847,946
(Increase) / decrease in operating assets	34.2	(3,109,654,029)	(1,189,021,063)
Increase / (decrease) in operating liabilities	34.3	2,149,362,525	422,211,578
Net cash flow (used in) / generated from operating activities		(762,019,420)	(580,961,539)
Cash flows from investing activities			
Purchase of property plant and equipment	12.5	(4,850,664)	(9,586,365)
Dividends received	29	2,560,000	2,139,250
Proceeds from sale of property plant and equipment		2,656,084	142,100
		365,420	(7,305,015)
Cash flow from financing activities			
Payments to lease creditor		(18,372,944)	(17,367,640)
		(18,372,944)	(17,367,640)
			-
Exchange differences on translations of foreign currency capital and foreign currency reserves	22/23	4,227,724	(23,462,607)
Net increase / (decrease) in cash and cash equivalents		(775,799,220)	(629,096,801)
Cash and cash equivalents at the beginning of the year		1,594,367,294	2,223,464,095
Cash and cash equivalents at the end of the year		**818,568,074**	**1,594,367,294**

The notes to the financial statements from pages 08 to 66 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 unless otherwise stated)

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 2020 were authorised for issue by the local management on 30 March 2021.

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 vale through other comprehensive income has also been recorded in fair value.

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

2.1.3 Presentation of financial statements

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

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

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

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.1 Basis of preparation (contd)

2.1.4 New standards and amendments – applicable 1 January 2020

The bank has applied the following standards and amendments for the first time for their annual reporting periods commencing 1 January 2020

i. Definition of Material – Amendments to LKAS 1 and LKAS 8

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

In particular, the amendments clarify:

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

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

ii. Definition of a Business –Amendments to SLFRS 3

The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term ‘outputs’ is amended to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. The amendments will likely result in more acquisitions being accounted for as asset acquisitions.

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

iii. Revised Conceptual Framework for Financial Reporting

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

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

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

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

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.1 Basis of preparation (contd)

2.1.4 New standards and amendments – applicable 1 January 2020

iv. Covid-19-related Rent Concessions – Amendments to SLFRS 16

As a result of the COVID-19 pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. According to the amendment to SLFRS 16 Leases which provides lessees with an option to treat qualifying rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concessions as variable lease payments in the period in which they are granted.

Entities applying the practical expedients must disclose this fact, whether the expedient has been applied to all qualifying rent concessions or, if not, information about the nature of the contracts to which it has been applied, as well as the amount recognised in profit or loss arising from the rent concessions.

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

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

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

2.1.5 New standards and amendments but not adopted in 2020

(a) Classification of Liabilities as Current or Non-current – Amendments to IAS 1

The narrow-scope amendments to IAS 1 Presentation of Financial Statements clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (eg the receipt of a waver or a breach of covenant). The amendments also clarify what IAS 1 means when it refers to the 'settlement' of a liability.

The amendments could affect the classification of liabilities, particularly for entities that previously considered management's intentions to determine classification and for some liabilities that can be converted into equity.

They must be applied retrospectively in accordance with the normal requirements in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

In May 2020, the IASB issued an Exposure Draft proposing to defer the effective date of the amendments to 1 January 2023.

(b) Property, Plant and Equipment: Proceeds before intended use – Amendments to IAS 16

The amendment to IAS 16 Property, Plant and Equipment (PP&E) prohibits an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment.

Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities.

This amendment is effective for the annual periods beginning on or after 1 January 2022.

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)

2.1.5 New standards and amendments but not adopted in 2020

(c) Reference to the Conceptual Framework – Amendments to IFRS 3

Minor amendments were made to IFRS 3 Business Combinations to update the references to the Conceptual Framework for Financial Reporting and add an exception for the recognition of liabilities and contingent liabilities within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets and Interpretation 21 Levies. The amendments also confirm that contingent assets should not be recognised at the acquisition date.

This amendment is effective for the annual periods beginning on or after 1 January 2022.

(d) Onerous Contracts – Cost of Fulfilling a Contract Amendments to IAS 37

The amendment to IAS 37 clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts. Before recognising a separate provision for an onerous contract, the entity recognises any impairment loss that has occurred on assets used in fulfilling the contract.

This amendment is effective for the annual periods beginning on or after 1 January 2022.

(e) Annual Improvements to IFRS Standards 2018–2020

The following improvements were finalised in May 2020:

- IFRS 9 Financial Instruments – clarifies which fees should be included in the 10% test for derecognition of financial liabilities.
- IFRS 16 Leases – amendment of illustrative example 13 to remove the illustration of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives.
- IFRS 1 First-time Adoption of International Financial Reporting Standards – allows entities that have measured their assets and liabilities at carrying amounts recorded in their parent’s books to also measure any cumulative translation differences using the amounts reported by the parent. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.
- IAS 41 Agriculture – removal of the requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.

This amendment is effective for the annual periods beginning on or after 1 January 2022.

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.1 Basis of preparation (contd)

2.1.6 Rounding of amounts

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

2.1.7 Comparative information

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

2.2 Significant accounting judgements, estimates and assumptions

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

2.2.1 Impairment losses on loans and advances

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

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

Impairment is calculated as per "Expected Credit Loss (ECL)" calculation, which is an output of complex models with a number of 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 2.3.8 and Note 8 to the financial statements.

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.2 Significant accounting judgements, estimates and assumptions (contd)

2.2.2 Write-off

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

2.2.3 Recognition

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

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

2.2.4 Estimation uncertainties and judgements made in relation to lease accounting

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

2.2.5 Employee benefit liability - gratuity

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

2.2.6 Fair value of property plant and equipment

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

2.2.7 Fair value of financial instruments

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

2.2.8 Income tax and other taxes

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

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.2 Significant accounting judgements, estimates and assumptions (contd)

2.2.8 Income tax and other taxes (contd)

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

2.3 Summary of significant accounting policies

2.3.1 Functional and presentation currency

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

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

Transactions and balances

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

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

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

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

2.3.2 Fair value measurement

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

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

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

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.3 Summary of significant accounting policies (contd)

2.3.2 Fair value measurement (contd)

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 measurements.

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

2.3.3 Cash and cash equivalents

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

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

2.3.4 Placements with financial institutions

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

2.3.5 Assigned capital

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

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

2.3.6 Statutory reserve fund

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

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

(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)

The bank holds the following financial instruments:

Financial assets	Category	Carrying Value as of 31.12.2020 Rs.	Carrying Value as of 31.12.2019 Rs.
Cash and cash equivalents	Amortised cost	818,568,074	1,594,367,294
Balances with Central Bank of Sri Lanka	Amortised cost	30,569,620	77,238,084
Placement with financial institution	Amortised cost	101,042,123	1,001,397,263
Other financial assets	Amortised cost	421,269,516	640,531,431
Loans and advances to customers	Amortised cost	2,902,814,773	2,892,644,160
Investment in government securities	Amortised cost	2,986,669,378	2,064,276,129
Investment in government securities - T Bills and SLDB	FVOCI	3,517,839,229	194,528,823
Investment in unquoted shares	FVOCI	23,337,945	23,337,945
Financial liabilities			
Due to banks	Amortised cost	58,996,455	50,652,897
Due to customers	Amortised cost	4,081,191,838	2,537,213,713

(a) Financial assets measured at amortised cost

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

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

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

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) Financial assets measured at FVOCI

- Debt instruments at FVOCI

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

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

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income on debt instruments at FVOCI is recognised in Profit or Loss. The ECL calculation for debt instruments at FVOCI is explained in Note 3.5. Where the Bank holds more than one investment in the same security, they are deemed to be disposed of on a first–in first–out basis. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to Profit or Loss.

- Equity instruments at FVOCI

Upon initial recognition, the Bank occasionally elects to classify Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument-by instrument basis irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of equity under LKAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument-by instrument basis

Gains and losses on these equity instruments are never recycled to Profit or Loss. Dividends are recognised in Profit or Loss as 'other operating income' when the right of the payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

(c) Financial assets measured at FVTPL

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

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

(d) Financial liabilities - Subsequent measurement

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

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

Due to customers / banks

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

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) Financial assets measured at FVOCI (contd)

(d) Financial liabilities - Subsequent measurement (contd)

Borrowings / other financial liabilities

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

2.3.8 Impairment of financial assets

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

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

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

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

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

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

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

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

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

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

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.3 Summary of significant accounting policies (contd)

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

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 horison.
- 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.

Further any impact on Covid - 19 outbreak, to the impairment of financial assets have been considered and relevant impairment charge has been recognized appropriately.

(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.

2.3.10 Derivative financial instruments

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

2.3.11 Reverse repurchase agreements

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

2.3.12 Property plant and equipment

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

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.

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)

2.3.12 Property plant and equipment (contd)

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-assed 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,

Freehold buildings	20 Years
Leasehold buildings	Shorter of their useful life or the lease term unless the entity expects to use the assets beyond the lease term
Motor vehicles	5 Years
Furniture, fixtures and fittings	5 Years except for
Computer equipment	once specifically
ATMs	7 Years
Software - Customised	10 Years
Steel Furniture	10 Years
PABX	10 Years

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

2.3.13 Impairment of non-financial assets

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

2.3.14 Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letter of credit, guarantees and acceptances. The financial guarantee liability is initially measured at fair value and subsequently at the higher of: the amount determined in accordance with the expected credit loss model under IFRS 9 Financial Instruments and; the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15 Revenue from contracts with customers.

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

2.3.15 Recognition of the Loans and Receivable under COVID – 19 Moratorium Scheme

Modifications to the cash flows of the loans and receivables due to the COVID 19 outbreak considers as ‘non-substantial’, thus does not result in derecognition of the financial assets in accordance with SLFRS 9 - “Financial Instruments”. Accordingly, modifications gain/loss shall be charged to profit or loss immediately. In the determination process the management applied professional judgement by comparing the modification loss as against carrying value of the asset and the decision were taken based on the materiality of the gain / loss.

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.3 Summary of significant accounting policies (contd)

2.3.16 Employee benefit liability (contd)

(a) Defined benefit plan - gratuity (contd)

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 2020 carried out by Messrs. Actuarial and Management Consultants (Private) Limited, actuaries. Refer Note 17 to the financial statements for details on Gratuity.

The gratuity liability is not externally funded.

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

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

2.3.17 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.

2.3.18 Taxes

Current income tax

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

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

Deferred tax

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

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

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

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

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.3 Summary of significant accounting policies (contd)

2.3.18 Taxes (contd)

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.

2.3.19 Leases

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

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

2.3.20 Revenue recognition

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

a) Interest income and expenses

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

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

b) Fee and commission income

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

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

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

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

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.3 Summary of significant accounting policies (contd)

2.3.20 Revenue recognition (contd)

b) Fee and commission income (contd)

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

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

(ii) Fee income from providing transaction services

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

c) Net trading income

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

d) Dividend income

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

e) Other income

Other income is recognised on an accrual basis.

f) Other expenses

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

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.3 Summary of significant accounting policies (contd)

2.3.21 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.

2.3.22 Cash flow statement

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

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

3 Analysis of financial instruments by measurement basis

	2020	2019
Assets	**Rs.**	**Rs.**
Financial assets at amortised cost		
Cash and cash equivalents	818,568,074	1,594,367,294
Balances with Central Bank of Sri Lanka	30,569,620	77,238,084
Placement with financial institution	101,042,123	1,001,397,263
Other financial assets	421,269,516	640,531,431
Loans and advances to customers	2,902,814,773	2,892,644,160
Investment in government securities	2,986,669,378	2,064,276,129
Total financial amortised cost at amotised cost	**7,260,933,484**	**8,270,454,361**
Financial assets measured at fair value through OCI		
Financial assets measured at fair value through other comprehensive income	3,541,177,174	217,866,768
Total financial assets measured at Fair Value through OCI	**3,541,177,174**	**217,866,768**

	2020	2019
Liabilities	**Rs.**	**Rs.**
Financial liabilities at amortised cost		
Due to banks	58,996,455	50,652,897
Due to customers	4,081,191,838	2,537,213,713
Total financial liabilities	**4,140,188,294**	**2,587,866,610**

4 Cash and cash equivalents

	2020	2019
	Rs.	**Rs.**
Cash in Hand - Local currency	63,786,377	60,132,670
Cash in Hand - Foreign currency (United States Dollar)	222,571	363,813
Balances with banks	109,559,113	195,870,811
Money at call and short notice	645,000,013	1,338,000,000
	818,568,074	**1,594,367,294**

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

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

5 Balances with central bank of Sri Lanka

	2020 Rs.	2019 Rs.
Money held at Central Bank of Sri Lanka in Sri Lanka Rupees	30,569,620	77,238,084
	30,569,620	**77,238,084**

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 2020, the minimum cash reserve requirement was 2% (2019 - 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.

6 Placements with financial institutions

	2020 Rs.	2019 Rs.
Other placements with finanacial institutions	101,042,123	1,001,397,263
	101,042,123	**1,001,397,263**

The balance as at 31 December 2020 represents placements with Hatton National Bank amounting to Rs. 100 Mn, along with interest receivable.

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

7 Derivative financial instruments

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

	2020 Rs.	2019 Rs.
Foreign currency forwards contracts	4,144,566	5,544,550
	4,144,566	**5,544,550**

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

8 Financial assets at amortised cost - loans and advances

	2020 Rs.	2019 Rs.
Gross loans and advances	**3,142,820,469**	**3,147,498,252**
Stage 1	1,582,680,052	977,604,540
Stage 2	479,846,908	1,665,298,966
Stage 3	1,080,293,510	504,594,746
Less ; Accumulated impairmnet	**(240,005,696)**	**(254,854,092)**
Stage 1	(225,027)	(1,440,352)
Stage 2	(54,429,954)	(49,059,218)
Stage 3	(185,350,715)	(204,354,522)
Net loans and advances	**2,902,814,773**	**2,892,644,160**

8.1 Net loans and advances by product

	2020 Rs.	2019 Rs.
Term loans	1,774,624,828	1,818,469,419
Overdraft	779,269,983	967,268,963
Consumer loans	-	-
Short term loans	33,826,088	65,741,460
Trade finance loans	485,555,946	232,693,673
	3,073,276,845	3,084,173,515
Allowance for impairment losses [Note 10.3]	(240,005,696)	(254,854,092)
	2,833,271,149	2,829,319,423
Staff loans	98,466,464	89,283,283
Less : Allowance for day 1 difference	(28,922,840)	(25,958,546)
	69,543,624	63,324,737
	2,902,814,773	**2,892,644,160**

8.2 Net loans and advances by currency

	2020 Rs.	2019 Rs.
Local currency - Sri Lankan Rupees	2,500,025,758	2,177,460,285
Foreign currency (US Dollar)	402,789,015	715,183,875
	2,902,814,773	**2,892,644,160**

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

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

8.3 Impairment allowance for loans and advances to customers

	Stage 1	Stage 2	Stage 3
Opening balance as at 01.01.2020	1,440,352	49,059,218	204,354,522
Charge / (write back) to income statement	(1,215,325)	5,243,218	(23,487,893)
Write off during the year	-	-	-
Foreign exchange (gains)/ losses	-	127,518	4,484,086
Closing balance as at 31.12.2020	**225,027**	**54,429,954**	**185,350,715**

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

9 Financial assets at amortised cost - debt and other instruments

	2020 Rs.	2019 Rs.
Investment in govrnment securities [Note 9.1]	2,986,669,378	2,064,276,129
Investment in other securities [Note 9.2]	423,053,840	647,315,755
Less : Provision for impairment [Note 9.3]	(1,784,324)	(6,784,324)
	3,407,938,894	**2,704,807,560**

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

	2020 Rs.	2019 Rs.
Government treasury bills	-	-
Government treasury bonds	2,986,669,378	2,064,276,129
	2,986,669,378	**2,064,276,129**

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

	2020 Rs.	2019 Rs.
Trust certificates [Note 9.2.1]	423,053,840	647,315,755
	423,053,840	**647,315,755**

9.2.1 Trust certificates

The above balance represents investment in trust certificates of Peoples Leasing Company PLC amounting to Rs. 423.0 Mn, out of which Rs.185.4 Mn matures in year 2021 and Rs. 237.6 Mn matures in year 2022. (2019 amounting to Rs. 647.3 Mn, out of which Rs.192.9 Mn matures in year 2020, Rs. 199.1 Mn matures in year 2021 and Rs. 255.1 Mn matures in year 2022 .

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HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

9 Financial assets at amortised cost (contd)

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

	2020 Rs.	2019 Rs.
Stage 1		
Opening balance	6,784,324	946,925
Charge / (write back) to income statement	(5,000,000)	5,837,399
Closing balance	**1,784,324**	**6,784,324**
Stage 2		
Opening balance	-	-
Charge / (write back) to income statement		
Closing balance	**-**	**-**
Stage 3		
Opening balance	-	-
Charge / (write back) to income statement	-	-
Closing balance	**-**	**-**
	1,784,324	**6,784,324**

10 Financial assets measured at fair value through other comprehensive income

	2020 Rs.	2019 Rs.
Investment in government securities - treasury bills	3,517,839,229	194,528,823
Unquoted investments		
- Lanka Clear (Private) Limited		
(50,000 ordinary shares of Rs. 10/- each)	7,508,388	7,508,388
- Credit Information Bureau of Sri Lanka		
(800 ordinary shares of Rs. 100/- each)	15,829,557	15,829,557
	3,541,177,174	**217,866,768**

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

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

11. Other assets

	2020 Rs.	2019 Rs.
Deposits and prepayments	3,290,919	3,305,359
Prepiad staff cost	28,922,840	25,958,546
Other assets*	49,926,471	8,722,805
	82,140,230	**37,986,710**

* Inward and Outward net cheque clearing balance to be settled by the Lanka Clear (Private) Limited amounting to Rs 38,407,464/- (2019- Rs. 7,722,602/-) is included in the other assets balance as at 31 December 2020.

12. Property, plant and equipment

12.1 Gross carrying amounts

	Balance As at 01.01.2020	Additions	Disposals/ transfers and write-offs	Balance As at 31.12.2020
At cost / revaluation				
Freehold land	183,375,000	28,525,000	-	211,900,000
Freehold building	61,554,628	10,182,887	(10,837,515)	60,900,000
Motor vehicles	23,250,000	-	-	23,250,000
Computer, furniture and fittings	164,216,394	4,326,224	(24,040,112)	144,502,506
	432,396,022	43,034,111	(34,877,627)	440,552,506
Leasehold building improvements	44,787,993	524,440	(4,284,881)	41,027,551
	44,787,993	524,440	(4,284,881)	41,027,551
Total gross carrying amount	**477,184,015**	**43,558,551**	**(39,162,508)**	**481,580,057**

	Balance As at 01.01.2019	Additions	Disposals/ Transfers and Write-offs	Balance As at 31.12.2019
At cost / revaluation				
Freehold land	183,375,000	-	-	183,375,000
Freehold building	56,330,477	5,224,151	-	61,554,628
Motor vehicles	23,250,000	-	-	23,250,000
Computer, furniture and fittings	162,946,852	4,362,214	(3,092,672)	164,216,394
	425,902,329	9,586,365	(3,092,672)	432,396,022
Leasehold building improvements	44,787,993	-	-	44,787,993
	44,787,993	-	-	44,787,993
Total gross carrying amount	**470,690,322**	**9,586,365**	**(3,092,672)**	**477,184,015**

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 01.01.2020	Charge for the year	Disposals/ transfers and write-offs	Balance as at 31.12.2020
At cost / revaluation				
Freehold building	7,521,814	3,678,056	(10,837,515)	362,355
Motor vehicles	23,250,000		-	23,250,000
Computer, furniture and fittings	141,578,031	10,530,002	(22,001,037)	130,106,996
	172,349,845	14,208,058	(32,838,552)	153,719,350
Leasehold building improvements	41,555,242	2,912,445	(3,955,834)	40,511,852
	41,555,242	2,912,445	(3,955,834)	40,511,852
Total accumulated depreciation	**213,905,087**	**17,120,503**	**(36,794,386)**	**194,231,203**

	Balance as at 01.01.2019	Charge for the year	Disposals/ transfers and write-offs	Balance as at 31.12.2019
At cost / revaluation				
Freehold building	4,090,720	3,431,094	-	7,521,814
Motor vehicles	23,025,000	225,000	-	23,250,000
Computer, furniture and fittings	126,382,215	18,169,071	(2,973,255)	141,578,031
	153,497,935	21,825,165	(2,973,255)	172,349,845
Leasehold building improvements	36,474,409	5,080,833	-	41,555,242
	36,474,409	5,080,833	-	41,555,242
Total accumulated depreciation	**189,972,345**	**26,905,999**	**(2,973,255)**	**213,905,087**

12.3 Net book values

	2020 Rs.	2019 Rs.
At cost / revaluation		
Freehold land	211,900,000	183,375,000
Freehold building	60,537,646	53,712,849
Motor vehicles	-	-
Computer, furniture and fittings	14,395,511	22,638,363
	286,833,157	259,726,212
Leasehold building improvements	515,699	3,552,716
Total carrying amount of property, plant and equipment	**287,348,858**	**263,278,928**

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

12 Property, plant and equipment (contd)

12.4 Revaluation of land and buildings

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

Fair value of the properties was determined using the market comparable method at a market price of Rs.272,800,000/-. 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 8 December 2020, 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 37 to the financial statements.

Significant unobservable valuation input: Range

Land value per perch.	Rs. 26,000,000
Building value per square metre	Rs. 6,500

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

Reconciliation of fair value	**2020**	**2019**
	Rs.	**Rs.**
As at 01 January	244,929,628	239,705,477
Additions during the year		5,224,151
Transfer of depreciation related to revalued building	(10,837,515)	-
Revaluation Surplus	38,707,887	-
As at 31 December	**272,800,000**	**244,929,628**

Had the freehold land and building been subsequently measured at cost model instead of revaluation model, the carrying values as at 31 December 2020 of the freehold land and the building would have been Rs. 6,000,000 and Rs. Nil respectively.

12.5 During the financial year, the Bank acquired property, plant and equipment to the aggregate value of Rs 4,850,664 (2019- Rs.9,586,365). Cash payments amounting to Rs 4,850,664 (2019- Rs. 9,586,365) 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. 186,962,919 (2019 - Rs.132,048,475).

13. Leases

The balance sheet shows the following amounts relating to leases:

	Year ended 31 December	
	2020	**2019**
Right-of-use assets	**Rs.**	**Rs.**
Buildings	26,294,422	22,890,149.4
	26,294,422	**22,890,149.4**
Lease liabilities		
Current	21,051,732	18,766,642.35
Non-current	-	-
	21,051,732	**18,766,642.35**

Additions to the right-of-use assets during the 2020 financial year were LKR 20,250,193 (2019 - LKR 39,496,519).

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

13 Leases (contd)

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

	Year ended 31 December 2020	2019
Depreciation charge of right-of-use assets	**Rs.**	**Rs.**
Buildings	15,996,150	16,606,370
	15,996,150	**16,606,370**
Interest expense (included in finance cost)	1,187,838	1,940,852
Expense relating to short-term leases (included in cost of goods sold and administrative expenses)	-	-
Expense relating to leases of low-value assets that are not shown above as short-term leases (included in administrative expenses)	-	-
Expense relating to variable lease payments not included in lease liabilities (included in administrative expenses)	-	-
The total cash outflow for leases	18,372,944	15,299,640

14 Due to banks

	2020	2019
	Rs.	**Rs.**
Deposits from other banks - Vostros	53,274,652	50,652,897
Deposits from other banks - Overdrawn Nostros	5,721,803	-
	58,996,455	**50,652,897**

15 Fiancilal liabilities at amortised cost - Due to customers

15.1 Due to customers - by products	2020	2019
	Rs.	**Rs.**
Demand deposits	804,803,916	524,798,753
Savings deposits	1,595,343,831	718,222,364
Time deposits	1,542,492,147	1,278,858,992
Call deposits	72,340,026	12,774,962
Margin balances	66,211,918	2,558,642
	4,081,191,838	**2,537,213,713**

15.2 Due to customers - by currency

Local currency - Sri Lankan Rupees	2,942,365,851	2,075,955,439
Foreign currency - United States Dollar	735,719,432	105,802,477
Foreign currency - others	403,106,556	355,455,797
	4,081,191,839	**2,537,213,713**

16 Financial liabilities measured at amortised cost - other borrowings

	2020	2019
	Rs.	**Rs.**
Foreign borrowings	562,040,917	-
	562,040,917	**-**

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

17 Other liabilities

	2020	2019
	Rs.	Rs.
Accrued expenses	39,960,585	37,251,868
Bills payable	42,693,887	9,479,110
Other liabilities	192,823	459,160
Lease liability	21,051,732	18,766,642
SLFRS 09 provision on unfunded facilities [Note 17.1]	112,520	112,520
	104,011,547	**66,069,300**

17.1 Provision on unfunded facilities

	2020	2019
Stage 1	Rs.	Rs.
Opening balance	17,262	111,098
Charge to income statement	-	(93,836)
Closing balance	**17,262**	**17,262**
Stage 2		
Opening balance	95,258	12,164,219
Charge to income statement	-	(12,068,961)
Closing balance	**95,258**	**95,258**
	112,520	**112,520**

18 Employee benefit liability

	2020	2019
	Rs.	Rs.
As at 1 January	42,564,911	49,898,398
Current service cost	3,775,548	3,203,508
Interest cost	4,388,442	5,987,808
Acturial loss /(gains) on retirement benefit obligation	(436,462)	(7,495,577)
(-) Payments during the year	(727,004)	(9,029,226)
As at 31 December	**49,565,435**	**42,564,911**

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

The acturial 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 acturial valuation as at 31 December 2020, carried out by Messrs Acturial and Management Consultants (Private) Limited, actuaries.

The key assumptions used by the management include the following,

	2020	2019
Rate of interest	8.0%	10.3%
Rate of salary increase	8%	10%
Retirement age	55 Years	55 Years
Average future working life of employees	5.76 Years	6.03 Years
Weighted Avreage duration of Defined Benefit Liability		
Unionised Staff	2.65 Years	3.54 Years
Other Staff	5.34 Years	5.59 Years

18.2 Net benefit expense categorised under personal expenses,

	2020	2019
	Rs.	Rs.
Current service cost	3,775,548	3,203,508
Interest cost	4,388,442	5,987,808
	8,163,990	**9,191,316**

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

18 Employee benefit liability (contd)

18.3 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;

	2020 Rs.	2019 Rs.
1% increase in discount rate	(1,630,924)	5,736,366
1% decrease in discount rate	1,759,450	9,049,306
1% increase in salary escalation rate	1,883,807	9,157,952
1% decrease in salary escalation rate	(1,778,037)	5,606,386

19 Deferred tax asset / liability

	2020 Rs.	2019 Rs.
As at 1 January	(12,417,060)	69,273,214
Release / (charge) during the Year	(44,499,864)	(81,690,274)
As at 31 December	**(56,916,924)**	**(12,417,060)**

19.1.1 Deferred tax liabilities

	2020	2019
Accelerated depreciation allowance for tax purposes - Property plant and equipment	(3,423,168)	(4,632,541)
On revaluation of property plant and equipment	(74,184,663)	(31,418,954)
On net gain / loss on financial assets at fair value through OCI	(6,914,117)	(6,688,016)
	(84,521,948)	**(42,739,511)**

19.1.2 Deferred tax assets

	2020	2019
On employee benefit obligations	13,878,322	11,918,175
On ECL allowance for impairment of financial assets	13,726,701	16,071,000
On carried forward tax losses	-	2,333,276
	27,605,023	**30,322,451**
Net deferred tax asset / (liability)	**56,916,924**	**(12,417,060)**

Deferred tax has been determined based on the effective tax rate of 28% (2019 - 28%) ,as per tax laws issued by department of Inland Revenue.

20 Assigned capital

	2020 Rs.	2019 Rs.
Assigned capital	4,938,390,143	4,938,390,143
	4,938,390,143	**4,938,390,143**

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

21 Statutory reserve fund

	2020 Rs.	2019 Rs.
As at 1 January	69,669,602	68,121,518
Transfer from the profits during the year [Note 24]	5,958,187	1,548,084
As at 31 December	**75,627,789**	**69,669,602**

21.1 Five per cent of profits after tax is transferred to the Statutory Reserve Fund as required by section 20(1) of the Banking Act No 30 of 1988. This reserve fund will be used only for the purposes specified in Section 20 (2) of the Banking Act No 30 of 1988. Transfers made during the was LKR 5,958,187 (Rs. 1,548,084 in 2019).

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

22 Revaluation reserve

	2020 Rs.	2019 Rs.
As at 1 January	204,911,724	204,911,724
Revaluation of land and building	38,707,887	-
Deferred tax related to revaluation of land and building	(42,765,708)	-
As at 31 December	**200,853,903**	**204,911,724**

23 Exchange equalisation of capital

	2020 Rs.	2019 Rs.
As at 1 January	91,107,948	296,882,890
Exchange differences on translations of foreign currency capital	3,577,750	(23,290,252)
Realisation of exchange equalisation reserve	(94,685,698)	(182,484,690)
As at 31 December	**-**	**91,107,948**

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 2,500,000 into LKR 389,550,000 at the rate of 184.4 & 181.3. Exchange equalisation transferred to retained earnings amounting to LKR 94,685,697 (2019 - LKR 182,484,690).

24 Exchange equalisation of reserves

	2020 Rs.	2019 Rs.
As at 1 January	8,147,241	8,319,596
Exchange differences on translations of foreign currency reserves	649,974	(172,355)
As at 31 December	**8,797,215**	**8,147,241**

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.

25 Retained earnings

	2020 Rs.	2019 Rs.
As at 1 January	869,865,376	652,570,274
Balance as at 1 January - Adjusted	869,865,376	652,570,274
Profit for the Year	119,163,736	30,961,681
Other comprehensive income for the year	436,462	7,495,577
Deferred tax recognised in other	(122,209)	(2,098,762)
Transfers to statutory reserve fund [Note 20]	(5,958,187)	(1,548,084)
Realisation of exchange equalisation reserve	94,685,698	182,484,690
As at 31 December	**1,078,070,876**	**869,865,376**

During the period company converted its USD capital of USD 2,125,000 into LKR, in 4 inastances at the rate of 182.1 and 184.4 respectively. Exchange equalisation transferred to retained earnings amounting to LKR 94,685,697 during 2020. (2019 - LKR 182,484,690).

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

26 Interest income

	2020 Rs.	2019 Rs.
Placements with Banks and CBSL	92,810,800	138,365,784
Reverse repurchase agreements	5,405,301	8,574,943
Governement securitues		
-Treasury bills	104,114,176	28,991,075
-Treasury bonds	256,866,235	199,706,348
Other financial assets	45,503,922	86,886,872
Loans and advances to customers	197,645,498	242,437,707
	702,345,932	**704,962,729**

Interest Income earned from government securities (Treasury bills, Reverse repurchase agreements and standing deposit facilities) for the year 2020 amounts to Rs. 428,921,403 (2019 - Rs. 251,847,692) and has been grossed up by adding notional tax receivable where applicable.

27 Interest expense

	2020 Rs.	2019 Rs.
Due to customers	140,517,367	135,981,910
Money market and other borrowings	10,764,665	3,565,685
Interest expense on lease liability	-	1,940,852
	151,282,032	**141,488,447**

28 Fees and commission income

	2020 Rs.	2019 Rs.
Commission on trade finance facilities	1,454,361	132,377
Commission on guarantees	1,561,274	605,843
Commission on remittances	738,645	472,961
	3,754,280	**1,211,181**

29 Other operating income

	2020 Rs.	2019 Rs.
Dividend income	2,560,000	2,139,250
Foreign exchange gain	10,574,487	1,692,629
Other income	8,864,664	14,678,250
	21,999,151	**18,510,129**

Other income includes incidental charges earned from customers, ATM related fees and charges, loan processing fees, cheque book charges and cheqe return charges.

30 Impairment charges and other losses

	2020 Rs.	2019 Rs.
Individual impairment charge / (reversal)	15,960,000	38,727,189
Collective impairment charge / (reversal)	8,500,000	70,428
	24,460,000	**38,797,617**

	2020 Rs.	2019 Rs.
Impairment on loans and receivables from other customers	19,460,000	38,797,617
Impairment on Investment and placements	5,000,000	-
Impairment on off balance sheet obligations	-	-
	24,460,000	**38,797,617**

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

31 Personnel expenses

	2020 Rs.	2019 Rs.
Salaries	117,141,382	106,375,543
Employee benefits - defined benefit plan [Gratuity] [Note 17.2]	8,163,990	9,191,316
Employee benefits - defined contribution plan		
Employee Provident Fund (EPF)	12,641,283	10,788,238
Employee Trust Fund (ETF)	3,036,815	2,544,855
Bonus	26,243,312	20,550,632
Other allowances	67,064,118	75,317,554
Amortisation of staff loan day 1 impact	-	3,882,243
	234,290,900	**228,650,381**

Other allowances include traveling allowances, electricity and gas allowances, payee tax reimbursements, medical reimbursements,accomodation allowances and education allowances.

32 Other operating expenses

	2020 Rs.	2019 Rs.
Auditors fees and expenses	2,839,947	3,103,000
Non audit fees and expenses	760,053	397,000
Legal fees	2,876,183	5,568,639
Marketing expenses	1,471,989	2,523,662
Travelling expenses	1,972,369	3,281,686
Security charges	6,316,470	6,743,902
License fee	5,015,083	3,000,000
Subscription	1,526,807	1,208,704
Inurance charge	12,654,962	7,665,529
Janitorial	3,575,663	4,053,331
Printing and stationery	2,079,602	2,453,512
Communication charges	14,314,199	12,355,553
Lighting charges & Water	5,767,666	5,514,046
Maintenance charges	4,742,870	5,272,675
Brokerage Fee	1,351,968	1,122,157
Clearing Charges	2,223,622	3,167,148
Outsource Charges	4,795,566	5,427,329
SWIFT and Visa Charges	6,268,081	6,272,589
Cash in transit	518,401	432,413
Other expenses	9,635,035	4,645,484
	90,706,536	**84,208,358**

33 Income tax and other taxes and levies

33.1 Taxes and levies on financial services

	2020 Rs.	2019 Rs.
Value Added Tax (VAT)	61,193,469	52,176,911
Nations Building Tax (NBT)	44,403	6,290,646
Debt Repayment Levy (DRL)	213,789	29,447,035
	61,451,661	**87,914,592**

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

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

33 Income tax and other taxes and levies (contd)

33.2 Income tax expense

	2020 Rs.	2019 Rs.
Current income tax		
Current income tax on profit for the year [Note 32.3]	61,162,000	-
Under / (over) provision of current taxes in respect of prior years	-	-
	61,162,000	**-**
Deferred income tax		
Deferred tax charge / (reversal) for the year	**1,385,846**	72,903,496
Income tax expense reported in the income statement	**62,547,846**	**72,903,496**
Deferred income tax		
Deferred tax recognised on fair value gain / (loss) from fiancial instruments at fair value through other comprehensive income	226,100	6,688,017
Deferred tax recognised on acturial loss / (gains) on retirement benefit obligation	122,209	2,098,762
Deferred tax recognised on Revaluation of Land and Busilding	42,765,708	-
Income tax expense reported in the statement of comprehensive income	**43,114,018**	**8,786,778**

33.3 Reconciliation between current tax expenses and the accounting profit:

	2020 Rs.	2019 Rs.
Accounting profit before taxation	181,711,582	103,865,177
Tax at the applicable tax rate of 28% (2019 - 28%)	50,879,243	29,082,250
Tax effect from expenses not deductible for tax purposes	24,336,372	46,437,574
Tax effect from Allowable deductions and income not subject to tax	(12,667,768)	(2,616,328)
Adjustments for current tax of prior periods	-	-
Tax charge / (credit)	**62,547,846**	**72,903,496**

34 Cash flow information

Cash flows from operating activities

34.1 Reconciliation of operating profit

		2020 Rs.	2019 Rs.
Profit / (loss) before tax		181,711,582	103,865,177
Gain on disposal of property, plant and equipment		(287,964)	(22,683)
Depreciation of property plant and equipment	12.2	17,120,503	26,905,998
Depreciation of right to use asset	13	15,996,150	16,606,370
Impairment charge / (reversal) for loans and advances	29	(19,460,000)	41,370,114
Impairment charge / (reversal) for investment and unfunded	16/29	(5,000,000)	(6,325,398)
facilities		-	-
Dividend income	28	(2,560,000)	(2,139,250)
Gratuity expense	17.2	8,163,990	9,191,316
Interest on lease creditor	13	1,187,838	1,940,852
Unrealised fair value (gains) / losses on financial instruments measuredat fair value through profit / loss	7	1,399,985	(5,544,550)
		198,272,084	**185,847,946**

34.2 Increase / (decrease) in operating assets

	2020	2019
Placement with banks	900,355,140	125,501,132
Balances with Central Bank of Sri Lanka	46,668,464	(2,074,145,321)
Other financial assets	(4,020,634,241)	211,235,154
Loans and advances to customers	12,253,680	581,333,697
Other assets	(48,297,072)	(32,945,725)
	(3,109,654,029)	**(1,189,021,063)**

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

34 Cash flow information (contd)

34.3 (Decrease) / increase in operating liabilities	2020 Rs.	2019 Rs.
Due to banks (Vostro)	8,343,558	4,003,889
Due to customers	1,543,978,126	397,230,216
Other borrowing	562,040,917	-
Other liabilities	35,726,929	30,006,699
Employee benefit liability	(727,004)	(9,029,226)
	2,149,362,525	**422,211,578**

35 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,

35.1 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.

	2020 Rs.	2019 Rs.
Short term employee benefits	42,769,250	46,624,869
	42,769,250	**46,624,869**
Deposits	16,411,244	20,731,556
	16,411,244	**20,731,556**
Interest expense	220,950	245,538
	220,950	**245,538**

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

Balances due from Banks (Nostro Balances)	2020 Rs.	2019 Rs.
Habib Bank Limited - UAE	91,505,133	105,356,523.80
Habib Allied International Bank- UK	1,824,451	8,966,799
Habib Bank Limited - Belgium	727,072	13,140,855
Habib Bank Limited - Singapore	89,635	584,243
Habib Bank Limited - Bangladesh	2,174,228	2,118,543
Habib Bank Limited - Pakistan	8,556,312	4,668,577
	104,876,831	**134,835,541**
Balances due to Banks (Vostro Balances)		
Habib Bank Limited - Male	6,657,310	43,154,611
Habib Bank Limited - Central Branch - Oman	257,300	257,300
Habib Bank Limited - Deira Branch - Dubai	112,078	112,078
Habib Bank Limited - HO Treasury - Karachi	46,247,964	7,128,907
	53,274,652	**50,652,896**

35.3 Transactions with Habib Bank Limited - Employee Provident Fund	2020 Rs.	2019 Rs.
Items in the statement of financial position		
Liabilities		
Saving deposit	145,160,995	122,567,538
	145,160,995	**122,567,538**
Items in the statement of comprehensive income		
Employee benefits - Employee Provident Fund	12,641,283	10,788,238
Interest expense	5,950,000	11,269,578
	18,591,283	**22,057,816**

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

36 Maturity analysis of assets and liabilities

As at 31 December	Within 12 Months	After 12 Months	2020 Total	Within 12 Months	After 12 Months	2019 Total
Assets	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**
Cash and cash equivalents	818,568,074	-	818,568,074	1,594,367,294	-	1,594,367,294
Balances with Central Bank of Sri Lanka	30,569,620	-	30,569,620	77,238,084	-	77,238,084
Placements with financial institutions	101,042,123	-	101,042,123	1,001,397,263	-	1,001,397,263
Derivative finanacial instruments	4,144,566	-	4,144,566	5,544,550	-	5,544,550
Financial assets at amortised cost		2,057,491,805	2,984,885,054		2,057,491,804.50	2,057,491,805
Other financial assets at amortised cost	58,053,840	365,000,000	423,053,840	282,315,755	365,000,000	647,315,755
Loans and advances to customers	1,867,597,079	1,025,047,081	2,902,814,773	1,867,597,079	1,025,047,081	2,892,644,160
Financial assets measured at fair value through other comprehensive income	3,517,839,229	23,337,945	3,541,177,174	194,528,823	23,337,945	217,866,768
Other assets	82,140,230	-	82,140,230	37,986,710	-	37,986,710
Income tax receivable	30,203,466	-	30,203,466	90,186,207	-	90,186,207
Property, plant and equipment	-	287,348,858	287,348,858	-	268,503,080	268,503,080
Deferred tax asset	-	-	-	-	-	-
Right of Use (ROU) asset	8,571,156	17,723,266	26,294,422	8,571,156.33	14,318,993	22,890,149
Total assets	**6,518,729,383**	**3,775,948,954**	**11,232,242,200**	**5,159,732,921**	**3,753,698,904**	**8,913,431,825**
Liabilities						
Due to banks	58,996,455	-	58,996,455	50,652,897	-	50,652,897
Due to customers	2,537,213,713	-	4,081,191,838	2,537,213,713	-	2,537,213,713
Other liabilities	66,069,300	-	104,011,547	66,069,300	-	66,069,300
Employee benefit liability	-	49,565,435	49,565,435	-	35,231,424	35,231,424
Deferred tax liabilities	-	56,916,924	56,916,924	-	12,417,060	12,417,060
Total liabilities	**2,662,279,468**	**106,482,359**	**4,350,682,199**	**2,653,935,910**	**47,648,484**	**2,701,584,394**

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

37 Fair value measurement

37.1 Fair value measurement hierarchy for assets as at 31 December 2020

37.1.1 Assets measured at fair value

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

Bank	Date of valuation	Total	Quoted prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
As At 31 December 2020		**Rs.**	**Rs.**	**Rs.**	**Rs.**
Assets measured at fair value					
Land and building :					
Land	08 December 2020	211,900,000	-	211,900,000	-
Buildings	08 December 2020	60,900,000	-	60,900,000	-
Derivative finanacial instruments	31 December 2020	5,544,550	-	5,544,550	-
Financial assets measured at fair value through other comprehensive income :					
Investment in govrnment securities - treasury bills	31 December 2020	3,517,839,229	-	3,517,839,229	-
Unquoted investments in Lanka Clear (Private) Limited and Credit Information Bureau of Sri Lanka	31 December 2020	23,337,945	-	23,337,945	-
		3,819,521,724	**-**	**3,819,521,724**	**-**

37.1.2 Assets not carried at fair value for which fair values are disclosed

As At 31 December 2019

Other financial assets	31 December 2020	3,407,938,894	-	3,848,159,593	-
Loans and advances to customers	31 December 2020	2,902,814,773	-	2,902,814,773	-
		6,310,753,667	**-**	**6,750,974,366**	**-**

Lands and buildings were valued by reference to market-based evidence, using comparable prices adjusted for specific market factors such as nature, location and condition of the property.

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

37 Fair value measurement (contd)

37.2 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	2020 Fair Value Rs.	2020 Carrying Value Rs.	2019 Fair Value Rs.	2019 Carrying Value Rs.
Other financial assets	3,848,159,593	3,407,938,894	2,704,807,560	2,704,807,560
Loans and advances to customers	2,902,814,773	2,902,814,773	2,892,644,160	2,892,644,160
	6,750,974,366	**6,310,753,667**	**5,597,451,720**	**5,597,451,720**

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

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

Assets	Liabilities
Cash and cash equivalents	Due to Banks
Balances with Central Bank of Sri Lanka	Other Borrowings
	Due to Customers

Fixed rate financial instruments

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

Based on Bank policy land and buildings were revalued and recognised in Level 2. Please refer Note 12.4 to the financial statements for more details.

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

38 Risk management

38.1 Risk management framework

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

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

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

38.1.1 Components of Risk Management Framework

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

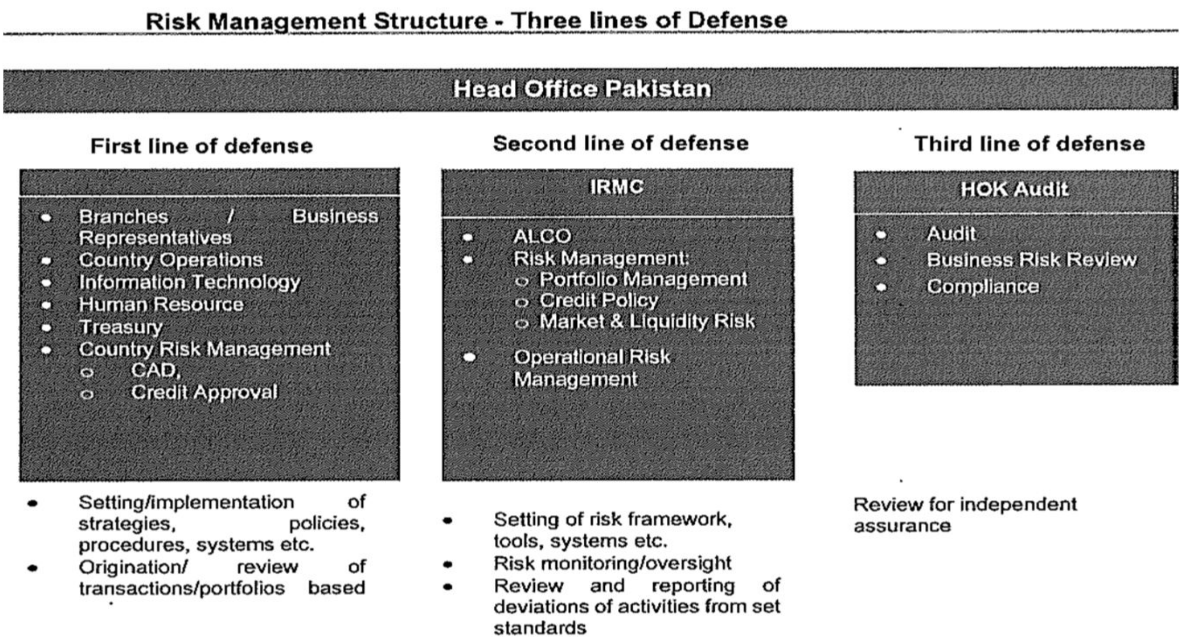
38.1.1.1 Strategy

Consolidated annual business plan of the bank will serve as its business strategy. Risk management strategy will essentially be represented by Risk Apetite 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 maintainence 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.

38.1.1.2 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.



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)

38 Risk management (contd)

38.1 Risk management framework (contd)

38.1.1.2 Risk Management Structure (contd)

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

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

Integrated Risk Management Committee (IRMC)

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

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

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

Asset and liability Committee (ALCO)

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

Local Credit Risk Management Committee (CRMC)

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

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

Risk Management Group

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

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

Country / Regional Risk Manager (RRM)

RRM shall be responsible for managing following significant areas:

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

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

38 Risk management (contd)

38.1 Risk management framework (contd)

38.1.1.2 Risk Management Structure (contd)

The impact of COVID - 19 on the business/operations and risk management of the Bank

The COVID-19 pandemic has had a direct impact on economic activities both locally and globally, while pandemic-related uncertainties have affected the overall business landscape of the country. Sri Lanka's efforts to gradually revive its economic activities subsequent to the countrywide lockdown have been once again impeded by the emergence of the second wave of the pandemic; which has forced lockdowns in selected areas and provinces with mobility restrictions being imposed to control a possible community spread.

Subsequent to the COVID-19 outbreak in Sri Lanka, the Bank had strictly adhered to the guidelines and directions issued by the Government and the Central Bank of Sri Lanka (CBSL) when conducting its business operations. The Bank provided relief for affected businesses and individuals in-line with the directions Issued by CBSL. Such relief measures Include, offering concessionary rates of interest to eligible loan products (debt moratorium), deferment of repayment terms of credit facilities, and waiving off selected fees and charges. Based on the Guidance Notes on Accounting Considerations of the COVID-19 Outbreak issued by the CA Sri Lanka, concessionary rates on the Equal Monthly Installment loans given under government debt moratorium relief packages have been considered under non substantial modification methodology and the impact have been charged to profit or loss immediately in these Financial Statements.

38.2 Basel III

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

Pillar I - Minimum Capital Requirement

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

Credit Risk: Standardised Approach
Market Risk: Standardised Measurement Approach
Operational Risk: Basic Indicator Approach

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

Pillar II - Supervisory Review Process (SRP)

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

<u>Credit Risk</u>

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

<u>Credit Concentration Risk</u>

Impact of default of Large borrowers on CAR

<u>Exchange Rate Risk</u>

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

<u>Interest Rate Risk</u>

Impact of change in interest rate on CAR for banking book

<u>Liquidity Risk</u>

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

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

38 Risk management (contd)

38.2 Basel III (contd)

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.

38.3 Credit risk

38.3.1 Introduction

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

38.3.2 Credit strategy / policies

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

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

38.3.3 Credit risk management

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

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

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

Credit risk management organisation

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

International Risk Management, (based in Pakistan)

Integrated Risk Management Committee (IRMC)

Country Risk Management

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

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

38 Risk management (contd)

38.3 Credit risk (contd)

38.3.3 Credit risk management (contd)

Credit risk management process

Salient features of credit approval process are delineated below:

- Every extension of credit to any counterparty requires approval by the personnel having credit approval authorities.
- All Business groups must apply consistent standards in arriving at their credit decisions.
- Every material change to a credit facility requires approval at the appropriate / predefined level.
- Credit approval authority is assigned to individuals according to their qualifications and experience.

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

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

Credit risk assessment and analytics

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

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

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

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

38 Risk management (contd)

38.3 Credit risk (contd)

38.3.3 Credit Risk Management (contd)

Credit Risk Monitoring and Reporting

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

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

Credit Risk Mitigation

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

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

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

-first pari-passu charge (where the prior charge holders, by issuance of No Objection Certificates (NOCs), agree to share pro-rata the collateral under charge

- inferior charge
- floating charge
- lien on cash deposit
- pledge of marketable securities such as GOSL bonds, Shares etc.
- legal mortgage, i.e., any of a number of types of claims against real property or fixed assets
- standby letter of credit / bank guarantee
- corporate or personal guarantees

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

Collateral valuation and management

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

Main Types of Guarantors

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

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

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

38 Risk management (contd)

38.3.4 Credit risk exposure

The total gross loans and receivables from all credit customers of the Bank stood at Rs. 3,142.820Mn as at 31 December 2020 (2019 - Rs. 3,147.498Mn) . Please refer Note 8 for the product wise loans and advances.

38.3.4.1 Commitments and contingencies

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

	Year ended 31 December	
	2020	**2019**
	Rs.	**Rs.**
Letter of credits	49,012,308	-
Guarantees	156,224,104	343,943,832
Bonds		103,644,910
Undrawn commitments	1,354,658,146	560,432,365
Derivative financial instruments	1,383,096,667	333,841,480
	2,942,991,225	**1,341,862,587**

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

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Notes to the financial statements (contd)

38 Risk management (contd)

38.3.4.2 Analysis of risk concentration

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

The Bank enhanced its credit risk management processes to cover whether a Significant Increase in Credit Risk (SICR) has taken place for customers operating in industries more severely affected by the COVID – 19 pandemic.

As at 31 December 2020	Agriculture and fisheries	Financial services	Government	Manufacturing	Construction and housing	Traders	Other	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Cash and cash equivalents	-	818,568,074	-	-	-	-	-	818,568,074
Balances with Central Bank of Sri Lanka	-	-	30,569,620	-	-	-	-	30,569,620
Placements with financial institutions	-	101,042,123	-	-	-	-	-	101,042,123
Derivative finanacial instruments	-	4,144,566	-	-	-	-	-	4,144,566
Financial assets at amortised cost	-	421,269,516	2,986,669,378	-	-	-	-	3,407,938,894
value through other comprehensive income			3,517,839,229	-	-	-	23,337,945	3,541,177,174
Total other financial assets	**-**	**1,345,024,279**	**6,535,078,227**	**-**	**-**	**-**	**23,337,945**	**7,903,440,451**
Loans and advances to customers								
Term loans		502,363,699	-	561,737,445	1,941,855		715,349,677	1,781,392,676
Overdraft	-	-	-	328,630,859	1,233,400	160,882,935	281,312,642	772,059,836
Consumer loans		-	-		-			-
Short term loans	4,541,854	-	-		-	-	29,601,250	34,143,104
Trade finance loans	454,000,000	-	-		-	31,555,946		485,555,946
Staff loans	-	-	-	-	16,836,029	-	52,832,878	69,668,907
Bills of exchange	-	-	-	-	-	-	-	-
Gross loans and advances	458,541,854	502,363,699	-	890,368,304	20,011,284	192,438,881	1,079,096,447	3,142,820,468
Allowance for impairment losses	(11,411,282)	(7,525,924)	-	(85,089,988)	(1,543,922)	(101,659,374)	(32,775,206)	(240,005,696)
Net loans and advances	447,130,572	494,837,775	-	805,278,316	18,467,362	90,779,507	1,046,321,240	2,902,814,772
Total	**447,130,572**	**1,839,862,054**	**6,535,078,227**	**805,278,316**	**18,467,362**	**90,779,507**	**1,069,659,186**	**10,806,255,224**

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Notes to the financial statements (contd)

38 Risk management (contd)

38.3.4.2 Analysis of risk concentration (contd)

	Agriculture and fisheries	Financial services	Government	Manufacturing	Construction and housing	Traders	Other	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
As at 31 December 2019								
Cash and cash equivalents	-	819,610,201	-	-	-	-	-	819,610,201
Balances with Central Bank of Sri Lanka	-	-	30,569,620	-	-	-	-	30,569,620
Placements with financial institutions	-	100,000,000	-	-	-	-	-	100,000,000
Derivative finanacial instruments	-	4,144,566	-	-	-	-	-	4,144,566
Financial assets at amortised cost	-	421,269,516	2,986,669,378	-	-	-	-	3,407,938,894
Financial assets measured at fair value through other			3,517,839,229	-	-	-	23,337,945	3,541,177,174
Total other financial assets	**-**	**1,345,024,283**	**6,535,078,227**	**-**	**-**	**-**	**23,337,945**	**7,903,440,455**
Loans and advances to customers								
Term loans	-	183,448,505	-	991,356,605	2,346,855	-	646,672,806	1,823,824,771
Overdraft	5,097,117	-	-	68,350,059	1,233,400	668,682,575	203,234,695	946,597,846
Consumer loans	-	-	-	-	-	-	-	-
Short term loans	4,691,854	-	-	-	-	49,873,955	26,335,628	80,901,437
Trade finance loans	200,000,000	-	-	-	-	32,693,673	-	232,693,673
Staff loans	-	-	-	-	17,452,125	-	46,028,400	63,480,525
Bills of exchange	-	-	-	-	-	-	-	-
Gross loans and advances	209,788,971	183,448,505	-	1,059,706,664	21,032,380	751,250,203	922,271,530	3,147,498,252
Allowance for impairment losses	(8,057,782)	(2,943,312)	-	(84,269,577)	(1,570,851)	(126,329,765)	(31,682,805)	(254,854,092)
Net loans and advances	201,731,189	180,505,193	-	975,437,087	19,461,529	624,920,438	890,588,724	2,892,644,160
Total	**201,731,189**	**1,525,529,476**	**6,535,078,227**	**975,437,087**	**19,461,529**	**624,920,438**	**913,926,669**	**10,796,084,614**

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

38 Risk management (contd)

38.3.4.3 Credit quality analysis

Credit quality of fianancial 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 2020	Neither past due nor impaired	Past due but not individually impaired	Individually Impaired	2020 Total
	Rs.	Rs.	Rs.	Rs.
Cash and cash equivalents	818,568,074	-	-	818,568,074
Balances with Central Bank of Sri Lanka	30,569,620	-	-	30,569,620
Placements with financial institutions	101,042,123	-	-	101,042,123
				-
Financial assets at amortised cost				-
- Gross loans and advances to customers	-	-	-	-
Term loans	1,779,450,821	-	1,941,855	1,781,392,676
Overdraft	497,640,664	111,356,455	163,062,718	772,059,837
Short term loans	17,405,740	12,195,510	4,541,854	34,143,104
Trade finance loans	454,000,000		31,555,946	485,555,946
Staff loans	69,668,908	-		69,668,908
- Debt and other instruments	3,407,938,894	-	-	3,407,938,894
Financial assets at fair value through other comprehensive income	3,541,177,174	-	-	3,541,177,174
Total	**9,767,282,201**	**123,551,965**	**201,102,373**	**10,091,936,539**

As at 31 December 2019	Neither past due nor impaired	Past due but not individually impaired	Individually Impaired	2019 Total
	Rs.	Rs.	Rs.	Rs.
Cash and cash equivalents	2,223,464,095	-	-	2,223,464,095
Balances with Central Bank of Sri Lanka	70,797,200	-	-	70,797,200
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	1,821,477,916	-	2,346,855	1,823,824,771
Overdraft	176,301,156	590,412,886	179,883,804	946,597,846
Short term loans	36,257,853	24,951,730	19,691,854	80,901,437
Trade finance loans	200,000,000		32,693,673	232,693,673
Staff loans	62,002,709	1,477,816	-	63,480,525
- Debt and other instruments	1,048,523,595	-	-	1,048,523,595
Financial assets at fair value through other comprehensive income	580,000	-	-	580,000
Total	**6,766,302,919**	**616,842,432**	**234,616,186**	**7,617,761,537**

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

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

38 Risk management (contd)

38.3.4.3 Credit quality analysis (contd)

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

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

Investments, placements and money at call - 31 December 2020	Carrying amount	Subject to 12 month ECL (Stage 1)	Subject to Lifetime ECL (Stage 2)	Subject to Lifetime ECL (Stage 3)
	Rs.	Rs.	Rs.	Rs.
Rating 1-3: Investment grade	3,907,517,969	3,907,517,969	-	-
Rating 4-7: Moderate risk	-	-	-	-
Rating 8-9A: High risk	-	-	-	-
Rating 10-12: Extreme risk	-	-	-	-
	3,907,517,969	**3,907,517,969**	**-**	**-**

Loans and advances to customers - 31 December 2020	Carrying amount	Subject to 12 month ECL (Stage 1)	Subject to Lifetime ECL (Stage 2)	Subject to Lifetime ECL (Stage 3)
	Rs.	Rs.	Rs.	Rs.
Rating 1-3: Investment grade	750,740,188.92	750,740,189		
Rating 4-7: Moderate risk	1,299,932,944.71	831,971,247	467,961,697	
Rating 8-9A: High risk	891,044,962.11			891,044,962
Rating 10-12: Extreme risk	201,102,373.72			201,102,374
	3,142,820,469	**1,582,711,436**	**467,961,697**	**1,092,147,336**

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

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

stage 3 financial instruments are considered to be impaired and ECL is calculated measured as the difference between the asset's gross carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate

When assessing collective impairment, exposures outstanding from customers in industries identified by the Bank having an elevated risk e.g. tourism & hospitality were classified as stage 2 & 3 and assessed for lifetime ECLs. Further, all customers within a debt moratorium or a debt restructuring arranged on their request, are closely monitored on an ongoing basis for any adverse developments in the customers' credit quality and assessed on a case – by – case basis whether the movement to Stage 2 or whether consideration as credit-impaired would be necessary. In addition to the on-going monitoring process, when assessing the expected credit losses, the Bank considered the potential impact of the COVID-19 outbreak based on the available information

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Notes to the financial statements (contd)

38 Risk management (contd)

38.3.4.3 Credit quality analysis (contd)

Aging of past due but not individually impaired financial assets

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

	Past due below 3 months but not impaired Rs.	Past due 3-12 months but not impaired Rs.	Past due more than 12 months but not impaired Rs.	Total past due but not impaired Rs.
Term loans	-	-	-	-
Overdraft	111,356,455	-	-	111,356,455
Short term loans	12,195,510	-	-	12,195,510
Trade finance loans		-	-	-
Staff Loans	-	-	-	-
Total	**123,551,965**	**-**	**-**	**123,551,965**

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

The Bank does not rebut the 30 DPD presumption as a key SICR criterion. Thus any financial instrument with 30 DPD are classified as Stage 2. As of 31.12.2020 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 2020	**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	-	-	-	1,941,855
Overdraft	-	-	-	163,062,718
Short term loans	-	-	-	4,541,854
Trade finance loans	-	-	-	31,555,946
Staff loans	-	-	-	
- Debt and other instruments	-	-	-	-
Financial Assets at fair value through other comprehensive income	-	-	-	-
Total	**-**	**-**	**-**	**201,102,373**

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Notes to the financial statements (contd)

38 Risk management (contd)

38.3.4.3 Credit quality analysis (contd)

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

Age analysis of impaired financial assets (contd)

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

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

38.3.4.3 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 2020	Maximum exposure to credit risk	Net collateral value	Net exposure
	Rs.	Rs.	Rs.
Cash and cash equivalents	818,568,074	-	818,568,074
Balances with Central Bank of Sri Lanka	30,569,620	-	30,569,620
Placements with financial institutions	101,042,123	-	101,042,123
Derivative finanacial instruments	4,144,566	-	4,144,566
Loans and advances to customers	3,142,820,469	3,117,670,741	25,149,728
Debt and other instruments	3,407,938,894	421,269,516	2,986,669,378
Financial assets measured at fair value through other comprehensive income	3,541,177,174	-	3,541,177,174
Contingent liabilities including financial guarantees and letters of credits	447,588,742	335,480,055	112,108,687
	11,493,849,662	**3,874,420,312**	**7,619,429,350**

Notes to the financial statements (contd)

38 Risk management (contd)

38.3.4.4 Collateral and other credit enhancements (contd)

As at 31 December 2020	Maximum exposure to credit risk	Net collateral value	Net exposure
	Rs.	Rs.	Rs.
Cash and cash equivalents	1,594,367,294	-	1,594,367,294
Balances with Central Bank of Sri Lanka	77,238,084	-	77,238,084
Reverse repurchase agreements	1,001,397,263	-	1,001,397,263
Placements with financial institutions	5,544,550	-	5,544,550
Other financial assets	3,147,498,252	2,652,129,006	495,369,246
Loans and advances to customers	2,704,807,560	640,531,431	2,064,276,129
Contingent liabilities including financial	217,866,768	-	217,866,768
guarantees and letters of credits	447,588,742	335,480,055	112,108,687
	9,196,308,513	**3,628,140,492**	**5,568,168,021**

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

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

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

38.4 Market risk

Introduction

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

Market risk structure

The market risk management at HBLSL comprises of,

- Local ALCO
- Country / Regional Risk 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.

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Notes to the financial statements (contd)

38 Risk management (contd)

38.4 Market risk (contd)

Market risk strategy / Policies and scope (contd)

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

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

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

Market risk management

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

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

Market risk mitigation, monitoring and reporting

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

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

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

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Notes to the financial statements (contd)

38 Risk management (contd)

38.4 Market risk (contd)

38.4.1 Interest Rate Risk

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

Interest Rate Risk in the banking book

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

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

Interest Rate Risk Management techniques

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

Gap analysis measures the differences between the RSA and RSL that mature or re-price within a time period. HBLSL uses rate sensitive gap analysis as a tools 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 37.4.1

Interest Rate sensitivity gap analysis as at 31 December 2020

	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	818,568,077	645,000,016									173,568,061
Balances with Central Bank of Sri Lanka	30,569,620	-									30,569,620
Reverse repurchase agreements	-										
Placements with financial institutions	101,042,123	101,042,123									
Financial assets at amortised cost	3,407,938,894	694,938,894		25,000,000	55,000,000	260,000,000	1,088,123,370	357,329,564	927,547,066		
Financial assets measured at fair value through other comprehensive income	3,541,177,174	299,339,808	2,238,877,146	979,622,276							23,337,945
Gross loans and advances to customers	3,171,743,309	856,985,829	2,077,104,275	91,095,892	14,838,760	7,194,796	3,065,952	6,198,702	59,029,812	20,131,492	36,097,800
	11,071,039,197	2,597,306,670	4,315,981,420	1,095,718,168	69,838,760	267,194,796	1,091,189,322	363,528,266	986,576,878	20,131,492	263,573,426
Financial liabilities											
Due to banks	58,996,455	-	-	-	-	-	-	-	-	-	58,996,455
Due to customers	4,081,191,839	1,909,039,970	844,744,192	47,560,916	408,830,926	-	-	-	-	-	871,015,835
Other borrowings	562,040,917	562,040,917	-	-							
	4,702,229,211	2,471,080,887	844,744,192	47,560,916	408,830,926						930,012,290
Total Interest Rate sensitivity gap	**6,368,809,986**	**126,225,783**	**3,471,237,228**	**1,048,157,252**	**(338,992,166)**	**267,194,796**	**1,091,189,322**	**363,528,266**	**986,576,878**	**20,131,492**	**(666,438,864)**

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%	(130,189,723)
-1%	139,079,404

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Notes to the financial statements (contd)

38 Risk management (contd)

38.4 Market risk (contd)

Interest Rate sensitivity gap analysis as at 31 December 2019

	Total Rs.	< 1 Month	1- 3 Months	3-6 Months	6 Months - 1 Year	1 Year - 2 Years	2 Years - 3 Years	3 Years - 5 Years	5 Years - 10 Years	Over 10 Years	Not exposed to interest rate risk
Financial assets											
Cash and cash equivalents	1,594,367,294	1,338,000,000	-	-	-	-	-	-	-	-	256,367,294
Balances with Central Bank of Sri Lanka	77,238,084	-	-	-	-	-	-	-	-	-	77,238,084
Reverse repurchase agreements	-	-	-	-	-	-	-	-	-	-	-
Placements with financial institutions	1,001,397,263	626,397,263	375,000,000	-	-	-	-	-	-	-	-
Government T-Bonds	2,064,276,128	-	-	-	-	-	-	633,903,404	1,430,372,724	-	-
Other financial assets	863,942,749	95,431,431	73,144,550	233,278,823	73,750,000	160,000,000	205,000,000	-	-	-	23,337,945
Gross loans and advances to customers	3,147,498,252	976,394,198	1,787,753,136	482,435	7,798,925	4,671,517	2,964,874	1,408,306	18,790,887	34,567,494	312,666,480
	8,748,719,771	3,036,222,892	2,235,897,686	233,761,258	81,548,925	164,671,517	2,964,874	1,408,306	18,790,887	34,567,494	1,137,563,695
Financial liabilities											
Due to banks	50,652,897	-	-	-	-	-	-	-	-	-	50,652,897
Due to customers	2,537,213,713	786,086,682	828,549,827	106,838,613	288,381,195	-	-	-	-	-	527,357,396
Other borrowings											
	2,587,866,610	786,086,682	828,549,827	106,838,613	288,381,195	-	-	-	-	-	578,010,293
Total Interest Rate sensitivity gap	**6,160,853,161**	**2,250,136,210**	**1,407,347,859**	**126,922,645**	**(206,832,270)**	**164,671,517**	**207,964,874**	**635,311,710**	**1,449,163,611**	**34,567,494**	**91,599,510**

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

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

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Notes to the financial statements (contd)

38 Risk management (contd)

38.4 Market risk (contd)

38.4.2 Foreign exchange risk

Foreign exchange risk refers to the risk that a Bank may suffer losses as a result of adverse exchange rate movements during a period in which it has an open position, either in the form of a balance sheet asset or liability account, or an off-balance sheet item. Business line managers are concerned with the consequences of potential exchange rate movements on the domestic currency equivalent value for all foreign currency positions. The goal of foreign exchange risk management is to minimize the losses that the Bank may incur due to adverse exchange rate movements of currencies in which the Bank has an open position.

Foreign exchange risk management

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

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

	2020	**2019**
Position (USD)	226,088	(116,000)

Please refer Note 8.2 foreign currency advances and Note No 15.2 foreign currency deposits balance as at 31 December 2020.

38.5 Liquidity risk

Introduction

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

38.5.1 Liquidity risk mitigation, monitoring and reporting

Global Asset Liability Committee (Global ALCO), Head Office, Pakistan is the forum to oversee liquidity risk management of 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 2020.

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

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Notes to the financial statements (contd)

38 Risk management (contd)

38.5 Liquidity risk (contd)

38.5.2 Analysis of financial assets and liabilities by remaining contractual maturities

The table below summarizes the contractual maturity profile of the undiscounted cash flows of the Bank's financial assets and liabilities as at 31 December 2020. Balances due within 12 months are equal to their carrying value as the impact of discounting is not significant.

As at 31 December 2020	On Demand (less than 15 Days)	15 Days to 3 Months	3 Months to 12 Months	Over 1 Year	Total 2020
Assets	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**
Cash and cash equivalents	818,568,077	-	-	-	818,568,077
Balances with Central Bank of Sri Lanka	30,569,620	-	-	-	30,569,620
Reverse repurchase agreements					
Placements with financial institutions	101,042,123	-	-	-	101,042,123
Financial assets at amortised cost	125,761,868	569,177,026	135,000,000	2,578,000,000	3,407,938,894
Financial assets measured at fair value through other comprehensive income	-	2,517,839,230	1,000,000,000	23,337,945	3,541,177,175
Loans and advances to customers	654,521,988	649,306,064	655,726,616	943,260,105	2,902,814,773
Total financial assets	**1,730,463,676**	**3,736,322,320**	**1,790,726,616**	**3,544,598,050**	**10,802,110,662**
Liabilities					
Due to banks	58,996,455	-	-	-	58,996,455
Due to customers	2,719,649,285	905,150,712	456,391,842	-	4,081,191,839
Other borrowings		562,040,917	-	-	562,040,917
Lease Liability	21,051,732				21,051,732
Total financial liabilities	**2,799,697,472**	**1,467,191,629**	**456,391,842**		**4,723,280,943**

As at 31 December 2019	On Demand Days)	15 Days to 3 Months	3 Months to 12 Months	Over 1 Year	Total 2019
Assets	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**
Cash and cash equivalents	1,594,367,294	-	-	-	1,594,367,294
Balances with Central Bank of Sri Lanka	77,238,084	-	-	-	77,238,084
Reverse repurchase agreements					
Placements with financial institutions	626,397,263	375,000,000	-	-	1,001,397,263
Financial Assets- Held to Maturity	-	-	-	2,064,276,128.40	2,064,276,128
Other financial assets	95,431,431	73,144,550	307,028,823	388,337,945	863,942,749
Loans and advances to customers	897,335,201	352,885,539	277,280,026	1,365,143,394	2,892,644,160
Total financial assets	**3,290,769,273**	**801,030,090**	**584,308,849**	**3,817,757,468**	**8,493,865,679**
Liabilities					
Due to banks	50,652,897	-	-	-	50,652,897
Due to customers	1,284,938,492	857,055,414	395,219,807		2,537,213,714
Other borrowings	-	-	-	-	-
Lease Liability	8,633,105		10,133,537		18,766,642
Total financial liabilities	**1,335,591,389**	**857,055,414**	**395,219,807**	**-**	**2,587,866,611**

HABIB BANK LIMITED - SRI LANKA BRANCH

Notes to the financial statements (contd)

38 Risk management (contd)

38.5 Liquidity risk (contd)

38.5.3 Contingency funding plan

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

38.6 Operational risk management (ORM)

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

ORM strategy and policies

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

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

ORM risk structure

The key players involved in ORM at HBLSL are:

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

ORM mitigation, monitoring and reporting

The ORM Mitigation tools used by HBLSL are:
- Business Continuity Management
- Insurance
- Outsourcing

The ORM is monitored by the Operational Risk Manager / IRMC at HBLSL and ORMD at Head Office Pakistan. Operational Risk is an independent function.

Operational Risk Manager directly reports to Head of Fraud & Operational Risk at Head Office Pakistan. Loss Data is reported to CBSL on quarterly basis and to Head Office on monthly basis.

Business Continuity Management

Business Continuity Management (BCM) is an ongoing process at HBL SL supported by senior management to ensure that the necessary steps are taken to identify the impact of potential losses, maintain viable recovery strategies and plans, and ensure the continuity of operations through personnel training, plan testing and maintenance

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.

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Notes to the financial statements (contd)

38 Risk management (contd)

38.6 Operational risk management (ORM) (contd)

Outsourced activities

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

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

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.Furthermore, VPN access also has been provided to all necessary staff facilitating them to work remotely in any emergency situation.

Operational risk loss data

HBLSL has not suffered any Operational Losses during the FY 2020.

Under Basel III HBL SL follows Basic Indicator Approach for calculating capital charge for Operational Risk.

39 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.

40 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.

40.1 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.

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

41 Events after the reporting date

There were no material events occurring after the reporting date which require adjustments or disclosures in the financial statements other than stated below;

The Department of Inland Revenue (IRD) issued a public notification on 12 February 2020 announcing a revision to the tax rate applicable to the Bank from 28% to 24%, which was placed on the Order Paper of the Parliament for the First Reading only on 26 March 2021 which is considered as substantially enacted on the same date. Therefore the current and deferred taxes included in the financial statements have been measured at the rate of 28% since the Bank's reporting date relevant for these financial statements is prior to 26 March 2021.

Had the tax rate been applied at 24%, the income tax liability would have been decreased by Rs. 8,935,407 and the deferred tax liability would have been increased by Rs. 3,472,009 as at 31 December 2020.

Key Regulatory Ratios - Capital and Liquidity

Item	31-Dec-20	31-Dec-19
Regulatory Capital (LKR '000)		
Common Equity Tier 1	5,987,659	5,743,875
Tier 1 Capital	5,987,659	5,743,875
Total Capital	6,063,410	5,824,998
Regulatory Capital Ratios (%)		
Common Equity Tier 1 Capital Ratio *(Minimum Requirement-7%)*	133%	121%
Tier 1 Capital Ratio *(Minimum Requirement - 8.5%)*	133%	121%
Total Capital Ratio *(Minimum Requirement - 12.5%)*	135%	123%
Leverage Ratio *(Minimum Requirement - 3%)*	51%	62%
Regulatory Liquidity		
Statutory Liquid Assets (LKR'000)	6,863,706	4,920,295
Statutory Liquid Assets Ratio *(Minimum Requirement -20%)*	163.41%	242.34%
Domestic Banking Unit (%)	163.41%	242.34%
Off-Shore Banking Unit (%)	41.80%	31.61%
Liquidity Coverage Ratio (%) – Rupee *(Minimum Requirement -90%)*	635.00%	1640.00%
Liquidity Coverage Ratio (%) – All Currency (*Minimum Requirement - 90%)*	363.70%	1509.14%

Basel III Computation of Capital Ratios

Item	Period 31.12.2020	Period 31.12.2019
Common Equity Tier 1 (CET1) Capital after Adjustments	**5,987,659**	**5,743,875**
Common Equity Tier 1 (CET1) Capital	**6,092,090**	**5,877,926**
Equity Capital (Stated Capital)/Assigned Capital	4,938,391	4,938,391
Reserve Fund	75,628	69,670
Published Retained Earnings/(Accumulated Retained Losses)	1,079,064	871,173
Published Accumulated Other Comprehensive Income (OCI)	-994	-1,308
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	**104,431**	**134,051**
Goodwill (net)		
Intangible Assets (net)		
Deferred tax assets (net)	0	0
Amount due to head office & branches outside Sri Lanka in Sri Lanka Rupees	-446	-785
Amount due from head office & branches outside Sri Lanka in Foreign Currency (net)	104,877	134,836
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	**75,751**	**81,123**
Tier 2 Capital	**75,751**	**81,123**
Qualifying Tier 2 Capital Instruments		
Revaluation Gains	48,311	48,311
Loan Loss Provisions	27,440	32,812
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	**5,987,659**	**5,743,875**
Total Tier 1 Capital	**5,987,659**	**5,743,875**
Total Capital	**6,063,410**	**5,824,998**