

**HABIB BANK LIMITED
SRI LANKA BRANCH
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31ST DECEMBER 2025**



KPMG
(Chartered Accountants)
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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF HABIB BANK LIMITED – SRI LANKA BRANCH

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Habib Bank Limited – Sri Lanka Branch (“the Bank”), which comprise the statement of financial position as at 31 December 2025, and the statement of profit and loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policies and other explanatory information as set out on pages 4 to 65.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2025, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

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 are independent of the Bank in accordance with the Code of Ethics for Professional Accountants issued by CA Sri Lanka (Code of Ethics) and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available 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, 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.

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Principals: S.R.I. Perera FCMA (UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA, Ms. F.R. Ziyad FCMA (UK), FCIT, K. Somasundaram ACMA (UK), R. G. H. Raddella ACA, Ms. D. Corea Dharmaratne



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 Bank'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 Bank or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank'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 Bank'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 Bank 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

Report on Other Legal and Regulatory Requirements

The Bank's financial position is in compliance with the provisions of the Banking Act No.30 of 1988 and the Banking (Amendment) Act No.24 of 2024 relating to the issuance of financial statements and disclosure provisions and, we have not noted any instance to call for an explanation or any information from any officer or agent of the Bank in relation to Section 39 (1A).

A handwritten signature in blue ink that reads 'KPMG'.

Chartered Accountants

Colombo, Sri Lanka

Date 27th February 2026

HABIB BANK LIMITED - SRI LANKA BRANCH
STATEMENT OF FINANCIAL POSITION

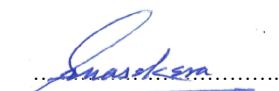
AS AT 31 ST DECEMBER,	Note	2025 Rs.	2024 Rs.
Assets			
Cash and Cash Equivalents	5	2,239,836,393	2,263,534,896
Balances with Central Bank of Sri Lanka	6	91,027,646	161,108,346
Placements with Financial Institutions	7	1,818,010,219	1,384,322,014
Derivative Financial Instruments	8	5,419,182	-
Financial Assets at Amortized Cost			
- Loans and Advances to Customers	9	4,330,146,538	3,960,417,644
- Debt and Other Instruments	10	978,291,484	4,792,420,172
Financial Assets measured at Fair Value through Other Comprehensive Income	11	9,055,023,036	9,918,838,258
Property, Plant and Equipment	12	397,619,390	375,670,215
Right of Use Assets	13.1	37,024,477	27,458,753
Other Assets	14	131,458,360	144,198,527
Total Assets		19,083,856,725	23,027,968,825
Liabilities			
Due to Banks	15	531,245	1,301,610
Derivative Financial Instruments	8	-	4,166,089
Financial Liabilities at Amortized Cost - Due to Customers	16	11,016,775,001	12,384,732,305
Financial Liabilities measured at Amortized Cost - Other Borrowings	17	-	1,888,344,864
Retirement Benefit Obligations	18	68,966,523	54,701,300
Current Tax Liabilities	19	151,932,768	223,522,007
Deferred Tax Liabilities	20	53,990,581	37,938,270
Lease Liabilities	13.2	31,890,539	21,997,596
Other Liabilities	21	125,109,556	135,555,860
Total Liabilities		11,449,196,213	14,752,259,901
Equity			
Assigned Capital	22	4,938,390,142	4,938,390,142
Statutory Reserve Fund	23	184,030,182	166,229,500
Revaluation Reserve	24	256,475,011	255,903,112
Exchange Equalization of Reserve	25	25,622,600	23,252,202
Fair Value Through Other Comprehensive Income Reserve		69,655,947	93,303,447
Retained Earnings	26	2,160,486,630	2,798,630,521
Total Equity		7,634,660,512	8,275,708,924
Total Equity and Liabilities		19,083,856,725	23,027,968,825
Contingent Liabilities and Commitments	39.3.4.1	10,854,141,711	7,019,054,373


The accounting policies and notes form an integral part of these financial statements.

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

We, the undersigned, being the Country Manager and the Head of Finance of Habib Bank Limited - Sri Lanka Branch jointly certify that these financial statements have been prepared in compliance with the format and definitions prescribed by the Central Bank of Sri Lanka.

Approved and signed for and on behalf of the management:


 Sujeeeni Gunasekera
 Country Manager


 Fathima Zahara Mohamed
 Head of Finance

Colombo, Sri Lanka
 27th February 2026

HABIB BANK LIMITED - SRI LANKA BRANCH
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31ST DECEMBER,

	Note	2025 Rs.	2024 Rs.
Interest Income	27	1,582,735,841	1,945,712,817
Interest Expense	28	(569,797,616)	(656,436,360)
Net Interest Income		1,012,938,225	1,289,276,457
Fees and Commission Income	29.1	71,748,805	88,251,005
Fees and Commission Expense	29.2	(8,035,735)	(6,459,309)
Net Fees and Commission Income		63,713,070	81,791,696
Other Operating Income	30	110,810,513	123,549,133
Total Operating Income		1,187,461,808	1,494,617,286
Impairment Charges	31	91,409,336	(78,133,416)
Net Operating Income		1,278,871,144	1,416,483,870
Personnel Expenses	32	(324,199,056)	(317,004,390)
Depreciation of Property, Plant and Equipment and ROU Assets	12/13	(35,094,208)	(31,612,456)
Other Operating Expenses	33	(179,677,957)	(183,163,802)
Total Operating Expenses		(538,971,221)	(531,780,648)
Operating Profit before Taxes and Levies on Financial Services		739,899,923	884,703,222
Taxes and Levies on Financial Services	34.1	(159,878,502)	(218,339,846)
Profit before Income Tax		580,021,421	666,363,376
Income Tax Expenses	34.2	(224,007,778)	(285,102,988)
Profit for the Year		356,013,643	381,260,388
Other Comprehensive Income			
<i>Items that are or may be Reclassified Subsequently to Statement of Profit or Loss</i>			
Exchange Differences on Translations of Foreign Currency Reserves	25	2,370,398	(4,266,719)
Net Gain on Investment in Financial Instruments measured at Fair Value through OCI		(33,782,141)	16,366,902
Tax Expenses Relating to Items that may be Reclassified to Statement of Profit or Loss	20.1	10,134,642	(4,275,488)
<i>Items that will not be Reclassified to Statement of Profit or Loss</i>			
Actuarial Loss on Retirement Benefit Obligations	18	(7,357,763)	(7,240,773)
Tax Expenses Relating to Items that will not be Reclassified to Statement of Profit or Loss	34.2	2,779,228	3,477,257
Other Comprehensive Income for the Year, net of tax		(25,855,634)	4,061,180
Total Comprehensive Income for the Year		330,158,009	385,321,567

*The accounting policies and notes form an integral part of these financial statements.
Figures in brackets indicate deductions*

HABIB BANK LIMITED - SRI LANKA BRANCH
STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31ST DECEMBER,

	Assigned Capital	Statutory Reserve Fund	Revaluation Reserve	Exchange Equalization of Reserve	Fair Value Through Other Comprehensive Income Reserve	Retained Earnings	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
As at 1 st January 2024	4,938,390,142	147,166,481	254,598,086	27,518,921	81,212,033	2,441,501,693	7,890,387,356
Total Comprehensive Income for the Year							
Profit for the Year	-	-	-	-	-	381,260,388	381,260,388
Other Comprehensive Income	-	-	-	(4,266,719)	16,366,902	(7,240,773)	4,859,410
Revaluation Gain	-	-	-	-	-	-	-
Deferred Tax recognized in OCI (Note 34.2)	-	-	1,305,026	-	(4,275,488)	2,172,232	(798,230)
Transfer to Statutory Reserve Fund (Note 23)	-	19,063,019	-	-	-	(19,063,019)	-
As at 31 st December 2024	<u>4,938,390,142</u>	<u>166,229,500</u>	<u>255,903,112</u>	<u>23,252,202</u>	<u>93,303,447</u>	<u>2,798,630,521</u>	<u>8,275,708,924</u>
As at 1st January 2025	4,938,390,142	166,229,500	255,903,112	23,252,202	93,303,447	2,798,630,521	8,275,708,924
Total Comprehensive Income for the Year							
Profit Repatriation						(971,206,418)	(971,206,418)
Profit for the Year	-	-	-	-	-	356,013,643	356,013,643
Other Comprehensive Income	-	-	-	2,370,398	(33,782,142)	(7,357,763)	(38,769,507)
Deferred Tax Recognized in OCI (Note 34.2)	-	-	571,899	-	10,134,642	2,207,329	12,913,870
Transfer to Statutory Reserve Fund (Note 23)	-	17,800,682	-	-	-	(17,800,682)	-
As at 31 st December 2025	<u>4,938,390,142</u>	<u>184,030,182</u>	<u>256,475,011</u>	<u>25,622,600</u>	<u>69,655,947</u>	<u>2,160,486,630</u>	<u>7,634,660,512</u>

The accounting policies and notes form an integral part of these financial statements.

Figures in brackets indicate deductions

HABIB BANK LIMITED - SRI LANKA BRANCH
STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31ST DECEMBER,

	Note	2025 Rs.	2024 Rs.
Cash Flows from Operating Activities			
Operating Profit before Changes in Operating Assets and Liabilities	35.1	531,599,065	776,939,058
Increase / (Decrease) in Operating Assets and Liabilities			
Increase / (Decrease) in Operating Assets	35.2	4,000,512,624	(5,224,061,743)
(Decrease) / Increase in Operating Liabilities	35.3	<u>(3,267,518,836)</u>	<u>4,470,271,452</u>
Cash Flows Generated from Operating Activities		1,264,592,853	23,148,767
Interest Paid on Lease Liabilities	13.2	(2,803,746)	(1,490,528)
Employee Benefits Paid	18	(4,667,167)	(10,784,007)
Income Tax Paid	19	<u>(266,630,835)</u>	<u>(370,074,573)</u>
Net Cash Flows Generated (Used in) Operating Activities		990,491,105	(359,200,341)
Cash Flows from Investing Activities			
Purchase of Property, Plant and Equipment	12.2	(41,797,229)	(12,008,993)
Dividends Received	30	2,791,910	2,678,520
Proceeds from Sale of Property, Plant and Equipment		<u>8,570,000</u>	<u>20,000</u>
Net Cash Flows Used in Investing Activities		(30,435,319)	(9,310,473)
Cash Flows from Financing Activities			
Profit Repatriation	26	(971,206,418)	-
Repayment of Lease Liabilities	13.2	<u>(14,918,982)</u>	<u>(14,692,996)</u>
Net Cash Flows Used in Financing Activities		(986,125,400)	(14,692,996)
Net Decrease in Cash and Cash Equivalents		(26,069,614)	(383,203,810)
Cash and Cash Equivalents at the Beginning of the Year	5	2,263,546,279	2,651,016,808
Exchange Differences on Translations of Foreign Currency Capital and Foreign Currency Reserves		<u>2,370,398</u>	<u>(4,266,719)</u>
Gross Cash and Cash Equivalents at the End of the Year	5	2,239,847,063	2,263,546,279
Less: Impairment on Cash and Cash Equivalents		<u>(10,670)</u>	<u>(11,383)</u>
Net Cash and Cash Equivalents at the End of the Year	5	<u>2,239,836,393</u>	<u>2,263,534,896</u>

*The accounting policies and notes form an integral part of these financial statements.
Figures in brackets indicate deductions*

1 Corporate information

1.1 Reporting Entity

Habib Bank Limited - Sri Lanka Branch ("Bank") is a licensed commercial bank established under the Banking Act No. 30 of 1988 with amendments, Banking Act No. 24 of 2024. 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, islamic banking products and services, dealing in government securities and other related services.

2 Basis of Accounting

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 Standards (the "Accounting Standards"), issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).

The Accounting Standards comprise:

- *Sri Lanka Financial Reporting Standards ("SLFRS")
- *Sri Lanka Accounting Standards ("LKAS")
- *Statements of Recommended Practices (SoRPs)
- *Statement of Alternate Treatment (SoATs)
- *Financial Reporting Guidelines issued by the CA Sri Lanka.

The Accounting Standards along with FAQs issued are available at the website of CA Sri Lanka www.casrilanka.com.

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

These financial statements except for information on cash flows have been prepared following the accrual basis of accounting.

The details of the Bank's material accounting policies followed during the year are disclosed in Note 3.

2.1.2 Approval of Financial Statements by Local Management

The Financial Statements of Habib Bank Limited – Sri Lanka Branch for the year ended 31st December 2025 were authorized for issue by the local management on 27th February 2026.

2.1.3 Basis of Measurement

The financial statements have been prepared on a historical cost basis except for the following material items, which are measured on the following alternative basis on each reporting date.

- Non-derivative financial instruments held at fair value through other comprehensive income are measured at fair value.
- Derivative financial instruments held at fair value through profit or loss are measured at fair value.
- Freehold land and buildings are measured at cost at the time of acquisition and subsequently at revalued amounts less accumulated depreciation and impairment losses.
- Liability for defined benefit obligations is measured as the present value of the defined benefit obligations.

2.1.4 Going Concern Basis of Accounting

The Management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that it has the resources to continue in business for a foreseeable future. The Assessment took into consideration the current economic developments in order to make projections for the future based on uncertainties associated with the economic conditions and its potential impact on the economic and business environment in which the Bank operates.

The Management is not aware of any material uncertainties that may cast significant doubt on the Bank's ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on the going concern basis.

2 Basis of Accounting (Continued)

2.1 Basis of Preparation (Continued)

2.1.5 Functional and Presentation Currency

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

Accordingly, the financial statements of Habib Bank Limited - Sri Lanka Branch are presented in Sri Lankan Rupees (LKR).

2.1.6 Presentation of Financial Statements

The Financial Statements of the bank have also been presented in compliance with the requirements of the Banking Act No. 30 of 1988 with amendments and Banking Act No.24 of 2024. The formats used in the preparation and presentation of the Financial Statements and the disclosures made therein also comply with the specified formats prescribed by the CBSL in the Circular No. 05 of 2024 dated 31st December 2024, on "Publication of Annual and Quarterly Financial Statements and Other Disclosures by Licensed Banks". The details of material accounting policies are disclosed in Note 3.

The Bank presents its statement of financial position broadly in order of liquidity. The assets and liabilities of the bank presented in the SOFP are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. An analysis on recovery or settlement within 12 months (current) and more than 12 months (non-current) from the reporting date is presented in Note 37 to the financial statements.

2.1.7 Materiality and Aggregation

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

2.1.8 Offsetting

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 recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expenses are not offset in the Statement of Profit or Loss and Other Comprehensive Income unless required or permitted by an Accounting Standard or Interpretation (issued by the SLFRS Interpretations Committee and Standard Interpretations Committee).

2.1.9 Comparative Information

Comparative information including quantitative, narrative and descriptive information is disclosed in respect of the previous year in the financial statements in order to enhance the understanding of the current year's financial statements and to enhance the inter- year 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 Basis of Accounting (Continued)

2.2 Use of Material Accounting Judgements, Estimates and Assumptions

The preparation of financial statements in conformity with Sri Lanka Accounting Standards (SLFRSs / LKASs) requires management to make judgements, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized prospectively.

Significant areas of critical judgements, assumptions and estimation uncertainty, in applying the accounting policies that have material effects on the amounts recognised in the financial statements of the Bank are as follows:

A. Judgements

Information about judgements made in applying accounting policies that have the most material effects on the amounts recognised in the financial statements are included in the following notes:

2.2.1 Classification of Financial Assets

The Bank uses judgements when assessing of the business model within which the assets are held and assessment whether the contractual terms of the financial assets are solely payments of principal and interest (SPPI) on the principal amount of the outstanding.

The Bank's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets are set out in Note 3.2.2.1 and 3.2.2.2 respectively.

2.2.2 Assessment of Credit Risk

Management uses judgement in establishing the criteria for determining whether credit risk on financial assets has increased significantly since initial recognition, determining the methods for incorporating forward looking information into the measurement of Expected Credit Losses (ECL) and selection and approval of models to measure ECL.

B. Assumptions and Estimation Uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustments to the carrying amounts of assets and liabilities is included in the following notes:

2.2.3 Fair Value of Financial Instruments

The fair value of financial assets and financial liabilities recognized in the Statement of Financial Position, where active market prices are not available, are determined using various valuation techniques, including the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. The Bank measures fair value using the fair value hierarchy that reflects the significance of input used in making measurements. Methodologies used for valuation of financial instruments and fair value hierarchy are stated in Note 3.2.6 and Note 38.

2.2.4 Impairment Losses on Financial Assets

The measurement of impairment losses across the categories of financial assets under SLFRS 9 requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses.

Accordingly, 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 Profit or Loss and Other 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. In estimating these cash flows, Management makes judgements about a borrower's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable. These estimates are based on assumptions about a number of factors and hence actual results may differ, resulting in future changes to the impairment allowance made.

2 Basis of Accounting (Continued)

2.2 Use of Material Accounting Judgements, Estimates and Assumptions (Continued)

2.2.4 Impairment Losses on Financial Assets (Continued)

A collective impairment provision is established for:

- *Groups of homogeneous loans and advances that are not considered individually significant; and
- *Groups of assets that are individually significant but that were not found to be individually impaired.

As per SLFRS 9, the Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the Bank's ECL models that are considered accounting judgements and estimates include:

- *Criteria for qualitatively assessing whether there has been a Significant Increase in Credit Risk (SICR) and if so allowances for financial assets measured on a Life Time Expected Credit Loss (LTECL) basis.
- *Segmentation of financial assets when their ECL is assessed on a collective basis.
- *Various statistical formulas and the choice of inputs used in the development of ECL models.
- *Associations between macro-economic inputs as GDP growth, and the effect of this input on Probability of Default (PDs), Loss Given Default (LGD) and Exposure At Default (EAD).
- *Forward-looking macro-economic scenarios and their probability weightings.

As such, the accuracy of the impairment provision depends on the model assumptions and parameters used in determining the ECL calculations. The impairment loss on loans and advances is disclosed in more detail in Note 3.2.7 and Note 9 to the financial statements.

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.

2.2.5 Deferred Tax Assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits, together with future tax planning strategies.

2.2.6 Retirement Benefit Obligations

The cost of the defined benefit plan – gratuity is determined using an actuarial valuation. The actuarial valuation involves making assumptions about rate of discounts, future salary increments, staff turnover, mortality rates, disability rate, retirement age, etc. 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 18 to the financial statements.

2.2.7 Revaluation of Property, Plant and Equipment

The freehold land and buildings of the Bank are reflected at revalued amounts with changes in fair value being recognised in Equity through OCI. The Bank engages independent professional valuer to assess fair value of land and buildings in terms of Sri Lanka Accounting Standard – SLFRS 13 on “Fair Value Measurement” (SLFRS 13). When current market prices of similar assets are available, such evidence has been considered in estimating the fair value of these assets. Refer Note 12.1 to the financial statements for details.

2 Basis of Accounting (Continued)

2.2 Use of Material Accounting Judgements, Estimates and Assumptions (Continued)

2.2.8 Useful Lifetime of the Property, Plant and Equipment

The Bank reviews the residual values, useful lives and methods of depreciation of Property, Plant and Equipment at each reporting date. Judgement of the Management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

2.2.9 Lease Accounting

The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

As the Bank cannot readily determine the interest rate implicit in the lease, it uses its Incremental Borrowing Rate (“IBR”) to measure the lease liabilities. The Bank estimates the IBR using observable input when available and is required to make certain entity-specific adjustments.

The estimation uncertainties and judgements made in relation to lease accounting is disclosed in more detail in Note 3.11 and Note 13.2 to the financial statements.

2.2.10 Contingencies

The Bank receives legal claims in the normal course of business. The 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.

2.3 Changes in Material Accounting Policies

Amendments to LKAS 21 – Lack of Exchangeability

The Amendments to LKAS 21 The Effects of Changes in Foreign Exchange Rates relating to Lack of Exchangeability are effective for annual reporting periods beginning on or after 1st January 2025.

The amendments clarify the determination of the spot exchange rate when a currency is not exchangeable and introduce additional disclosure requirements in such circumstances. The amendments are applied prospectively, with comparative information not required to be restated.

3 Material Accounting Policies

The material accounting policies set out below have been applied consistently to all periods presented in the financial statements of the Bank.

3.1 Foreign Currency Translation

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 prevailing at the reporting date. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the spot exchange rate as at the date of the transaction. Foreign currency differences arising on translation are generally recognised in the Statement of Profit or Loss.

The Bank’s local operations comprise of the Domestic Banking Unit (DBU) and the Foreign Currency Banking Unit (FCBU). 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 (FCBU) operations are translated to Sri Lankan Rupees at spot exchange rates prevailing at the reporting date. The income and expenses of the Foreign Currency Banking Unit (FCBU) operations are translated at monthly average rates.

Foreign currency differences arising on the translation of FCBU operations to presentation currency are recognized in Statement of Other Comprehensive Income.

3 Material Accounting Policies (Continued)

3.2 Financial Instruments

3.2.1 Recognition and Initial Measurement

(i) Date of recognition

All financial assets and liabilities with the exception of loans and advances to customers and balances due to customers 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”. Regular way trades mean 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. Loans and advances to customers are recognised when funds are transferred to the customers’ accounts. The Bank recognises balances due to customers when funds are transferred to the Bank.

(ii) Initial Measurement of Financial Instruments

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. The fair value of a financial instrument at initial recognition is generally its transaction price.

3.2.2 Classification of Financial Instruments

Financial Assets

On initial recognition, a financial asset is classified as measured at:

- Amortized Cost
- Fair Value through Other Comprehensive Income (FVOCI)
- Fair Value through Profit or Loss (FVTPL)

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

- the asset is held within a business model whose objective is to hold assets to collect contractual cash; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

A debt instrument is measured at FVOCI only 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 achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

3.2.2.1 Business Model Assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management’s strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank’s management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;

3 Material Accounting Policies (Continued)

3.2 Financial Instruments (Continued)

3.2.2 Classification of Financial Instruments (Continued)

3.2.2.1 Business Model Assessment (Continued)

- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

The business model assessment is based on reasonably expected scenarios without taking into account "worst case" or "stress case" scenarios. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

3.2.2.2 Assessment of whether Contractual Cash Flows are Solely Payments of Principal and Interest (SPPI)

As a second step of its classification process the Bank assesses the contractual terms of financial assets to identify whether they meet the SPPI test.

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Bank considers the contractual terms of the instruments. This includes assessing whether the financial asset contains a contractual term that could change the timing or contractual cash flows such that it would not meet this condition. In making the assessment the Bank considers:

"Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during the particular period of time and for other basic lending risks and costs, as well as profit margin.

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non recourse loans); and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

In contrast, contractual terms that introduce a more than "de minimis" exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

3.2.2.3 Financial Assets measured at Amortized Cost

A financial asset is measured at amortized 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 recognized 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.

3 Material Accounting Policies (Continued)

3.2 Financial Instruments (Continued)

3.2.2 Classification of Financial Instruments (Continued)

3.2.2.4 Financial Assets measured at Fair Value through Other Comprehensive Income

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

Debt Instruments measured at FVOCI

A debt instrument is measured at fair value through other comprehensive income (FVOCI) 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 recognized in OCI. Interest income on debt instruments at FVOCI is recognized in Profit or Loss. 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 recognized in OCI are reclassified from OCI to Profit or Loss.

Equity Instruments measured at FVOCI

Upon initial recognition, the Bank elects to classify irrevocably some of its equity instruments held for strategic and regulatory purposes as equity instruments at FVOCI.

Gains and losses on these equity instruments are never reclassified to Statement of Profit or Loss. Dividends are recognized in Statement of 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.

3.2.2.5 Financial Assets measured at FVTPL

Financial assets at fair value through profit or loss include derivative assets held for risk management purposes.

Financial Liabilities

On initial recognition, the Bank classifies financial liabilities, other than financial guarantees and loan commitments, into one of the following categories:

- financial liabilities at amortised cost; and
- financial liabilities at fair value through profit or loss

3.2.2.6 Financial Liabilities at Amortised Cost

Financial liabilities of the Bank that are not measured at FVTPL are classified as financial liabilities at amortised cost under "Due to banks", "Securities sold under repurchase agreements", "Due to customers", or "Other borrowings" as appropriate, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial recognition, such financial liabilities are subsequently measured at amortised cost using the EIR method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in "Interest expense" in profit or loss. Gains and losses too are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

3.2.2.7 Financial liabilities designated at fair value through profit or loss

Financial liabilities at fair value through profit or loss include derivative liabilities held for risk management purposes.

3.2.3 Reclassification of Financial Instruments

Financial assets are not reclassified subsequent to their initial recognition, except and only in those rare circumstances when the Bank changes its objective of the business model for managing such financial assets. Financial liabilities are not reclassified as such reclassifications are not permitted by SLFRS 9.

3 Material Accounting Policies (Continued)

3.2 Financial Instruments (Continued)

3.2.4 Derecognition

Financial Assets

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

Any cumulative gain or loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are sale-and-repurchase transactions.

Financial Liabilities

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

3.2.5 Modification of Financial Assets and Financial Liabilities

3.2.5.1 Modification of Financial Assets

If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Bank recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses measured using a pre modification interest rate. In other cases, it is presented as interest income.

3.2.5.2 Modification of Financial Liabilities

Where an existing financial liability is replaced by another from the same lender on substantially different terms or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instruments.

3 Material Accounting Policies (Continued)

3.2 Financial Instruments (Continued)

3.2.6 Fair Value Measurement

Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted pricing in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

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.

All assets and liabilities for which fair value is measured or disclosed in the Financial Statements are categorized 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.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

A fair value measurement of a non financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. External professional valuers are involved for valuation of significant assets such as land and buildings.

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.

An analysis of fair value measurement of financial and non-financial assets and liabilities is provided in Note 38.

3.2.7 Impairment of Financial Assets

The Bank recognises loss allowances for Expected Credit Losses (ECL) on the following financial instruments that are not measured at FVTPL;

- financial assets that are debt instruments;
- financial guarantee contracts issued; and
- undrawn credit commitments.

No impairment loss is recognised on equity investments.

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

- debt 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.

The Bank considers a debt instrument to have low credit risk when its credit risk rating is equivalent to the definition of 'investment grade'. The Bank does not apply the low credit risk exemption to any other financial instruments.

3 Material Accounting Policies (Continued)

3.2 Financial Instruments (Continued)

3.2.7 Impairment of Financial Assets (Continued)

Recognition of Expected Credit Losses (ECL)

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'. Financial Instruments allocated to Stage 1 have not undergone a significant increase in credit risk since initial recognition and are not credit impaired.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'. Financial instruments allocated to Stage 2 are those that have experienced a significant increase in credit risk since initial recognition but are not credit impaired.

Financial instruments for which lifetime ECL are recognised and that are credit-impaired are referred to as 'Stage 3 financial instruments'.

Measurement of Expected Credit Losses (ECL)

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

When discounting future cash flows, the following discount rates are used:

- financial assets: the original effective interest rate or an approximation thereof;
- undrawn loan commitments: the effective interest rate, or an approximation thereof, that will be applied to the financial asset resulting from the loan commitment; and
- financial guarantee contracts issued: the rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows.

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

- Probability of default (PD);
- Loss given default (LGD);
- Exposure at default (EAD).

ECL for exposures in Stage 1 are calculated by multiplying the 12-month PD by LGD and EAD.

Lifetime ECL are calculated by multiplying the lifetime PD by LGD and EAD.

The methodology for estimating PDs include the Bank collects performance and default information about its credit risk exposures analysed by type of product and borrower. The Bank employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

3 Material Accounting Policies (Continued)

3.2 Financial Instruments (Continued)

3.2.7 Impairment of Financial Assets (Continued)

Measurement of Expected Credit Losses (ECL) (Continued)

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery, costs of any collateral that is integral to the financial asset. LGD estimates are recalibrated for different economic scenarios and, for lending collateralised by property, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

Management Overlay Adjustments to ECL

Management Overlay Adjustments to the ECL allowance are used in circumstances where it is judged that the existing inputs, assumptions and model techniques do not capture all the risk factors relevant to Bank's lending portfolios. Emerging local or global macroeconomic, microeconomic or political events, and natural disasters that are not incorporated into the current parameters, risk ratings, or forward-looking information are examples of such circumstances.

The bank's Management Overlay Adjustments considered evaluating management overlays by assessing stressed customers and risk evaluated industries sectors. Where appropriate, the Bank makes adjustments to the ECL estimate outside the Bank's regular modelling process to reflect management judgements.

Restructured Financial Assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-Impaired Financial Assets

Definition of Default

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a loan that is past due for a period more than 90 days or more is considered credit-impaired.

3 Material Accounting Policies (Continued)

3.2 Financial Instruments (Continued)

3.2.7 Impairment of Financial Assets (Continued)

Presentation of Allowance for ECL in the Statement of Financial Position

Loss allowances for ECL are presented in the Statement of Financial Position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: as a provision under other liabilities.

Write-off

Loans and debt instruments are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are recognized under “Reversal of Impairment” in the Statement of Profit or Loss.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank’s procedures for recovery of amounts due.

Reversals of Impairment

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written-back by reducing the loan impairment allowance accordingly. The write back is recognised in the Statement of Profit or Loss.

Recognition of Expected Credit Loss Provision on Government Securities

Bank does not recognise impairment provision in respect of investment in government securities.

3.2.8 Impairment of Non Financial Assets

At each reporting date, the Bank reviews the carrying amounts of its non-financial assets other than investment deferred tax assets to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated. 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.

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% of the total of such rupee deposit liabilities), and highly liquid financial assets with original maturities of three months or less from the date of the acquisition that are subject to and insignificant risk of changes in their fair value, and are used by the bank in the management of its short term commitments.

Cash and cash equivalents are carried at amortized cost in the Statement of Financial Position.

3.4 Derivative Financial Instruments Held for Risk Management Purposes

Derivatives are categorised as FVTPL unless they are designated as hedging instruments.

When a derivative is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in profit or loss as a component of net income from other financial instruments at fair value through profit or loss.

All derivatives are initially recognised and subsequently measured at fair value, with all fair value changes recognised in profit and loss. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

3 Material Accounting Policies (Continued)

3.5 Property, Plant and Equipment

Recognition and Measurement

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. Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. 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.

Land and buildings are measured at fair value, less accumulated depreciation on buildings, and impairment losses recognized 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. The Bank is carrying out the asset valuation once in three years.

A revaluation surplus is recognized 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 recognized in the income statement, in which case the increase is recognized in the income statement. A revaluation deficit is recognized in profit or loss, except to the extent that it offsets an existing surplus on the same asset recognized in the asset revaluation reserve.

Subsequent Costs

The cost of replacing a component of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

Depreciation

Depreciation is calculated using the straight line method to write down the cost of property, plant and equipment to their residual values over their estimated useful lives from the time asset is placed in use. Land are not depreciated. Management has re-assessed the useful life of the assets during the period and changed the useful life of assets with effect from 1st January 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 once specifically mentioned below
Computer equipment	6 Years except for once specifically mentioned below
ATMs	7 Years
Software - Customized	10 Years
Steel furniture	10 Years
PABX	10 Years

Derecognition

Property, plant and equipment is derecognized 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 recognized in “Other Operating Income” or “Other Operating Expense” as appropriate in the Statement of Profit or Loss and Other Comprehensive Income in the year the asset is derecognized.

3.6 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 SLFRS 9 Financial Instruments and; the amount initially recognized less, where appropriate, the cumulative amount of income recognized in accordance with the principles of SLFRS 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 recognized in the Statement of Profit or Loss in “Fees and Commission Income” on a straight line basis over the life of the guarantee.

3 Material Accounting Policies (Continued)

3.7 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.

3.8 Reserves

Statutory Reserve Fund

The Statutory Reserve Fund is maintained as required in terms of the section 20 (1) and (2) of the Banking Act No. 30 of 1988. Accordingly, the Bank should transfer a sum equivalent not less than 5% out of net profit after taxation but before any dividend is declared to the Statutory Reserve Fund until the Statutory Reserve Fund is equal to 50% of the paid-up capital. Transfers made during the year from Retained Earnings to Statutory Reserve Fund is Rs. 17,800,682/- and Rs.19,063,019 in last year(Note 23).

Revaluation Reserve

This reserve has been created on revaluation of Land and Buildings of the Bank.

Exchange Equalisation of Reserves

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.

Fair Value Through Other Comprehensive Income Reserve

This represents the fair value changes of financial assets measured at Fair Value through Other Comprehensive Income (FVOCI).

3.9 Liabilities and Provisions

Deposits, Debt Securities Issued and Subordinated Liabilities

Deposits, debt securities issued and subordinated liabilities are the Bank's sources of funding. When the Bank sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date ("Repo"), the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Bank's Financial Statements.

The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

Deposits, debt securities issued and subordinated liabilities are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Bank chooses to carry the liabilities at fair value through profit or loss.

Securities Sold under Repurchase Agreements

Securities sold under agreements to repurchase at a specified future date are not de-recognised from the statement of financial position, as the Bank retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognised in the statement of financial position as an asset and a corresponding obligation to return it with accrued interest, as "securities sold under repurchase agreements", reflecting the transaction's economic substance as a loan to the Bank. The difference between the sale and repurchase price is treated as interest expense and is accrued over the life of the agreement using the Effective Interest Rate (EIR). The more details on accounting policy pertaining to securities sold under repurchase agreements has been given in Note 3.2 to the financial statements.

Provisions

Provisions are recognized 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 Profit or Loss and Other Comprehensive Income.

3 Material Accounting Policies (Continued)

3.10 Employee Benefits

3.10.1 Defined Benefit Plan - Retirement Benefit Obligation

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan.

The Bank's obligation in respect of defined benefit plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods that benefit is discounted to determine its present value. Any unrecognised past service costs is deducted. The discount rate is the yield at the reporting date on Government Bonds that have maturity dates approximating to the terms of the Bank's obligations. The calculation is performed by a qualified actuary using the Projected Unit Credit Method - Sri Lanka Accounting Standard (LKAS 19) - 'Employee Benefits'.

Actuarial gains and losses occur when the actual plan experience differs from the assumed. The Bank recognises the total actuarial gains and losses that arise in calculating the Bank's obligation in respect of the Plan in Statement of Other Comprehensive Income during the period in which it occurs.

Monthly provision is made by the Bank for the Gratuity Fund, based on a percentage of the basic salary of employees. The Bank carries out an actuarial valuation of the Gratuity Fund in December each year to ascertain the full liability of the Fund. The valuation method used by the actuary to value the Fund is the 'Projected Unit Credit Method', the method recommended by LKAS 19. The demographic assumptions underlying the valuation are mortality, staff turnover, disability, retirement age specified by the Bank, etc.

However, under the Payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of five years of continued service.

The gratuity liability is not externally funded.

3.10.2 Defined Contribution Plans - Employees' Provident Fund and Employees' Trust Fund

A defined contribution plan is a post employment plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay a further amount. Obligations for contributions to defined contribution plans are recognised as expense in the Statement of Profit or Loss as and when they are due.

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 basic salary to the Employees' Provident Fund.

3.11 Leases

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Bank Acting as a Lessee

At commencement or on modification of a contract that contains a lease component, the Bank allocates consideration in the contract to each lease component on the basis of its relative standalone price. However, for leases of branches and office premises the Bank has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

3 Material Accounting Policies (Continued)

3.11 Leases (Continued)

Bank Acting as a Lessee (Continued)

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

The Bank determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

- fixed payments, including in-substance fixed payments;

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Bank presents right-of-use assets in "Right of Use Assets" and "Lease Liabilities" in a separate line item in the Statement of Financial Position.

Statement of Profit of Loss and Other Comprehensive Income

3.12 Revenue Recognition

Revenue is recognized 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 recognized.

3.12.1 Interest Income and Expenses

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all transaction costs and fees that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the Statement of Profit or Loss include interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis.

Fair value changes on other derivatives held for risk management purposes, are presented in the Statement of Profit or Loss. Interest income on FVOCI investment securities calculated on an effective interest basis is also included in interest income.

3.12.2 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,

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.

3 Material Accounting Policies (Continued)

Statement of Profit of Loss and Other Comprehensive Income (Continued)

3.12 Revenue Recognition (Continued)

3.12.2 Fee and Commission Income (Continued)

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

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

Fee income from providing transaction services

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

3.12.3 Other Income

3.12.3.1. Net Trading Income

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

3.12.3.2. Dividend Income

Dividend income is recognized when the Bank's right to receive the dividend is established.

3.13 Taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the Statement of Profit or Loss except to the extent that it relates to items recognised directly in Equity or in Other Comprehensive Income.

The Bank has determined that interest and penalties related to income taxes, including uncertain tax treatments, do not meet the definition of income taxes, and therefore accounted for them under LKAS 37 Provisions, Contingent Liabilities and Contingent Assets.

Current Tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted on the reporting date, and any adjustment to tax payable in respect of previous years. The details of the Income Tax expenses are given in the Note 34.2.

As per Inland Revenue (Amendment) Act No.2 of 2025, income tax rate applicable for the entity is 30%. Accordingly, the income tax on profits from Domestic Banking Unit and Foreign Currency Banking Unit is calculated at the rate of 30%.

Deferred Tax

Deferred taxation is a methodology identifying the temporary differences of income tax computation and accounting for the same to bring out true and fair view of an organisation. It accounts for temporary differences between the carrying value of assets and liabilities for financial reporting purposes and the tax base of assets and liabilities which is the amount attributed for those assets and liabilities for tax purposes.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using the rates enacted or substantively enacted by the reporting date.

3 Material Accounting Policies (Continued)

Statement of Profit of Loss and Other Comprehensive Income (Continued)

3.13 Taxes (Continued)

Deferred Tax (Continued)

Deferred tax is not recognised for:

- Temporary differences on the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting or taxable profit or loss.
- Any permanent differences which are strictly prescribed by the tax statutes or any procedural guidelines.
- Any temporary difference not specifically recognised by an Act or an Act substantively enacted.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax asset is created on foreseen futuristic realisation of a tax deduction, which is taxed in the current period, and vice versa, a deferred tax liability shall be created for a foreseen futuristic realisation of a tax payment, which is not taxed in the current period. Deferred tax assets and liabilities are reviewed at each reporting date and are reduced or increased in accordance with the existence of taxing probabilities in the future.

Details of the deferred tax assets and liabilities as at the reporting date are given in Note 20.

Value Added Tax on Financial Services (VAT on FS)

VAT on Financial Services is calculated at 18% of the value addition. The value addition attributable to the supply of financial services is derived by adjusting the accounting profit with economic depreciation determined using depreciation rates prescribed by the Department of Inland Revenue. Further, staff emoluments (including both monetary and non-monetary benefits) were added back to the accounting profit, in calculating, the value addition. The amount of VAT on FS charged in determining the profit or loss for the period is given in Note 34.1.

Social Security Contribution Levy (SSCL)

The Bank is liable to pay SSCL on Financial Services at the rate of 2.5% on the value addition attributable to the supply of financial services. Further, Non-Financial Services are made liable on the turnover at the rate of 2.5%. The amount of SSCL charged in determining the profit or loss for the period is given in Note 34.1.

3.14 Contingent Liabilities and Commitments

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

Financial Guarantees and Undrawn Facilities

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

3.15 Statement of Cash Flows

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.

For the purpose of the Statement of Cash Flows, cash and cash equivalents include notes and coins on hand and highly liquid financial assets which are subject to insignificant risk of changes in their value, and are used by the Bank in the management of its short-term commitments.

3 Material Accounting Policies (Continued)

3.16 Events after the Reporting Period

Events occurring after the reporting date are those events, favourable and unfavourable, that occur between the reporting date and the date the Financial Statements are authorised for issue.

All material and important events which occur after the reporting date have been considered and disclosed in Note 42 to the Financial Statements or adjusted as applicable.

3.17 New and Amended Accounting Standards Issued but not yet Effective

The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) has issued several new accounting standards and amendments/ improvements to existing standards. These new standards are set to become effective in the coming years. Early application of these standards are allowed, but the Bank has not early adopted any of the new or amended standards in the preparation of these financial statements.

A. Classification and Measurement of Financial Instruments (Amendments to SLFRS 9 and SLFRS 7)

The requirements will be effective for annual reporting periods beginning on or after 01 January 2026, with early application permitted, and are related to:

recognition and derecognition, including accounting for settlement of financial liabilities using an electronic payments system; and

assessing contractual cash flow characteristics of financial assets, including those with sustainability-linked features.

B. SLFRS 18 Presentation and Disclosures in Financial Statements

SLFRS 18 will replace LKAS 1 Presentation of Financial Statements and is applicable for annual reporting periods beginning on or after 01 January 2027. The new accounting standard introduces the following key new requirements.

Entities are required to classify all income and expenses into five categories in the statement of profit or loss, namely the operating, investing, financing, discontinued operations and income tax categories. Entities are also required to present a newly defined operating profit subtotal. Entities' net profit will not change.

Management-defined performance measures (MPMs) are disclosed in a single note in the financial statements.

Enhanced guidance is provided on how to group information in the financial statements.

In addition, all entities are required to use the operating profit subtotal as the starting point for the statement of cash flows when presenting operating cash flows under the indirect method.

The Group is in the process of assessing the impact of the new accounting standard, particularly with respect to the structure of the Group's statement of profit or loss, the statement of cash flows and the additional disclosures required for MPMs. The Group is also assessing the impact on how information is grouped in the financial statements.

HABIB BANK LIMITED - SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31ST DECEMBER,

4	Classification of Financial Assets and Financial Liabilities	2025 Rs.	2024 Rs.
	Assets		
	Financial Assets at Amortized Cost		
	Cash and Cash Equivalents	2,239,836,393	2,263,534,896
	Balances with Central Bank of Sri Lanka	91,027,646	161,108,346
	Placement with Financial Institution	1,818,010,219	1,384,322,014
	Loans and Advances to Customers	4,330,146,538	3,960,417,644
	Investment in Government Securities	978,291,484	4,792,420,172
	Total Financial Assets at Amortized Cost	<u>9,457,312,280</u>	<u>12,561,803,072</u>
	Financial Assets measured at Fair Value through OCI		
	Financial Assets measured at Fair Value through OCI	9,055,023,036	9,918,838,258
	Total Financial Assets measured at Fair Value through OCI	<u>9,055,023,036</u>	<u>9,918,838,258</u>
	Financial Assets measured at Fair Value through Profit or Loss		
	Derivative Financial Instruments	5,419,182	(4,166,089)
	Total Financial Assets measured at Fair Value through Profit or Loss	<u>5,419,182</u>	<u>(4,166,089)</u>
	Total Financial Assets	<u>18,517,754,498</u>	<u>22,480,641,330</u>
	Liabilities		
	Financial Liabilities at Amortized Cost		
	Due to Banks	531,245	1,301,610
	Due to Customers	11,016,775,001	12,384,732,305
	Other Borrowings	-	1,888,344,864
	Total Financial Liabilities at Amortized Cost	<u>11,017,306,246</u>	<u>14,274,378,779</u>
	Financial Liabilities measured at Fair Value through Profit or Loss		
	Derivative Financial Instruments	(5,419,182)	4,166,089
	Financial Liabilities measured at Fair Value through Profit or Loss	<u>(5,419,182)</u>	<u>4,166,089</u>
	Total Financial Liabilities	<u>11,017,306,246</u>	<u>14,278,544,868</u>
5	Cash and Cash Equivalents	2025 Rs.	2024 Rs.
	Cash in Hand - Local Currency	260,891,075	243,093,583
	Cash in Hand - Foreign Currency	3,106,857	6,442,055
	Balances with Banks	1,975,849,131	2,014,010,641
	Provision for Impairment (Note 5.1)	(10,670)	(11,383)
		<u>2,239,836,393</u>	<u>2,263,534,896</u>
5.1	Provision for Impairment		
	Stage 1		
	Opening Balance	11,383	38,482
	(Reversal) / Charge for the Year	(713)	(27,099)
	Closing Balance	<u>10,670</u>	<u>11,383</u>
6	Balances with Central Bank of Sri Lanka	2025 Rs.	2024 Rs.
	Money held at Central Bank of Sri Lanka (in Sri Lanka Rupees)	91,027,646	161,108,346
		<u>91,027,646</u>	<u>161,108,346</u>
	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 st December 2025, the minimum cash reserve requirement was 2% (2024 -2%) 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.		
7	Placement with Financial Institutions	2025 Rs.	2024 Rs.
	Placements with Financial Institutions	1,838,098,415	1,401,101,048
	Provision for Impairment (Note 7.1)	(20,088,196)	(16,779,034)
		<u>1,818,010,219</u>	<u>1,384,322,014</u>

HABIB BANK LIMITED - SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31ST DECEMBER,

7 Placement with Financial Institutions (Continued)	2025	2024
	Rs.	Rs.
7.1 Provision for Impairment		
Stage 1		
Opening Balance	16,779,034	15,571,484
Charge for the Year	<u>3,309,162</u>	<u>1,207,550</u>
Closing Balance	<u><u>20,088,196</u></u>	<u><u>16,779,034</u></u>
<p>The balance as at 31st December 2025 represents placements with Seylan Bank amounting to Rs.600 Mn (Rs. 400 Mn at 8.00%, and Rs. 200 Mn at 7.50%) , Hatton National Bank amounting to Rs. 200 Mn (Rs. 100 Mn at 8% and Rs. 100 Mn at 8.25%) and Habib Bank Limited - Bangladesh US \$ 2 Mn (US \$ 1 Mn at 4.75% and US \$ 1 Mn at 4.839%) inclusive of interest receivable.</p>		
8 Derivative Financial Instruments	2025	2024
	Rs.	Rs.
Foreign Currency Forwards Contracts	<u>5,419,182</u>	<u>(4,166,089)</u>
	<u><u>5,419,182</u></u>	<u><u>(4,166,089)</u></u>
9 Financial Assets at Amortized Cost - Loans and Advances to Customers	2025	2024
	Rs.	Rs.
Gross Loans and Advances		
Stage 1	4,448,535,699	4,163,221,522
Stage 2	30,238,547	30,180,063
Stage 3	<u>226,010,346</u>	<u>221,910,366</u>
Total Gross Loans and Advances	<u><u>4,704,784,592</u></u>	<u><u>4,415,311,951</u></u>
Accumulated Impairment		
Stage 1	(148,515,676)	(232,665,275)
Stage 2	(112,033)	(318,666)
Stage 3	<u>(226,010,345)</u>	<u>(221,910,366)</u>
Total Accumulated Impairment	<u><u>(374,638,054)</u></u>	<u><u>(454,894,307)</u></u>
Net Loans and Advances	<u><u>4,330,146,538</u></u>	<u><u>3,960,417,644</u></u>
9.1 Net Loans and Advances by Product		
Term Loans	1,059,053,943	1,286,616,029
Overdrafts	2,498,652,786	2,424,945,175
Short Term Loans	540,568,771	97,413,566
Trade Finance Loans	489,959,041	499,961,363
Staff Loans	<u>116,550,051</u>	<u>106,375,818</u>
Gross Total	<u><u>4,704,784,592</u></u>	<u><u>4,415,311,951</u></u>
Allowance for Impairment Losses (Note 9.3)	<u>(374,638,054)</u>	<u>(454,894,307)</u>
Total Net Loans and Advances	<u><u>4,330,146,538</u></u>	<u><u>3,960,417,644</u></u>
9.2 Net Loans and Advances by Currency		
Local Currency - Sri Lankan Rupees	2,484,033,737	1,934,958,594
Foreign Currency	<u>2,220,750,855</u>	<u>2,025,459,050</u>
	<u><u>4,704,784,592</u></u>	<u><u>3,960,417,644</u></u>

HABIB BANK LIMITED - SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31ST DECEMBER,

9 Financial Assets at Amortized Cost - Loans and Advances to Customers (Continued)

9.3 Allowance for Impairment Losses	Stage 1	Stage 2	Stage 3	Total
	Rs.	Rs.	Rs.	Rs.
Balance as at 1 st January 2025	232,665,275	318,666	221,910,366	454,894,307
Charge/(Write back) to Profit or Loss Statement	(84,331,116)	(206,633)	(10,180,037)	(94,717,786)
Foreign Exchange Losses	181,517	-	14,280,016	14,461,533
Balance as at 31st December 2025	148,515,676	112,033	226,010,345	374,638,054
	Stage 1	Stage 2	Stage 3	Total
	Rs.	Rs.	Rs.	Rs.
Balance as at 1 st January 2024	118,686,329	43,892,247	240,251,910	402,830,486
Charge/(Write back) to Profit or Loss Statement	114,305,676	(43,573,581)	(5,405,955)	65,326,140
Foreign Exchange Losses	(326,730)	-	(12,935,589)	(13,262,319)
Balance as at 31st December 2024	232,665,275	318,666	221,910,366	454,894,307

9.3.1 Management overlay Adjustment

Where appropriate, the Bank makes adjustments to the ECL estimate outside the Bank's regular modelling process to reflect management judgement.

	2025	2024
	Rs.	Rs.
Loss allowance before management overlay adjustment	112,964,199	129,796,935
Non-performing loans	226,010,345	221,910,366
Management overlay adjustment	81,229,299	145,444,344
Loss allowance after management overlay adjustment	420,203,843	497,151,645

As at 31 December 2025, the Bank recognised an overlay of Rs 81,229,299 mn relating to uncertainties arising from the Ditwah cyclone. Though, the Bank does not have direct credit risk exposure for the Ditwah cyclone, there are two customers into retail financing and they are exposed to the Ditwah directly and hence, the Bank classifies their industry as an elevated risk sector during the year and recognised a cumulative provision of Rs 177,502,495 mn as at 31 December 2025. Thus, total cumulative provision amounted to Rs 420,203,843 mn as at 31st December 2025.

The total cumulative impairment provision, excluding the management overlay, amounted to Rs 338,974,544 mn.

HABIB BANK LIMITED - SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31ST DECEMBER,

10 Financial Assets at Amortized Cost - Debt and Other Instruments	2025	2024
	Rs.	Rs.
Investment in Government Securities (Note 10.1)	978,291,484	4,792,420,172
Provision for Impairment (Note 10.3)	-	-
	<u>978,291,484</u>	<u>4,792,420,172</u>
10.1 Investment in Government Securities		
Government Treasury Bills	-	3,620,312,118
Government Treasury Bonds	978,291,484	1,172,108,054
	<u>978,291,484</u>	<u>4,792,420,172</u>
10.2 Provision for Impairment		
Stage 1		
Opening Balance	-	1,180,451
(Write back) / Charge during the Year	-	(1,180,451)
Closing Balance	-	-
Stage 2		
Opening Balance	-	-
Charge / (write back) during the Year	-	-
Closing Balance	-	-
Stage 3		
Opening Balance	-	-
Charge / (write back) during the Year	-	-
Closing Balance	-	-
	<u>-</u>	<u>-</u>
11 Financial Assets measured at Fair Value through Other Comprehensive Income	2025	2024
	Rs.	Rs.
Investment in Government Securities - Treasury Bills	8,464,389,278	9,433,813,969
Investment in Government Securities - Treasury Bonds	551,042,675	449,425,034
Unquoted Shares held by the Bank (Note 11.1)	39,591,083	35,599,255
	<u>9,055,023,036</u>	<u>9,918,838,258</u>
11.1 Unquoted Shares held by the Bank		
	<u>2025</u>	<u>2024</u>
	No. of Ordinary Shares	Cost of Investment
	Fair Value	Fair Value
Lanka Clear (Private) Limited	50,000	500,000
Credit Information Bureau of Sri Lanka	800	80,000
	<u>19,550,061</u>	<u>16,735,238</u>
	<u>20,041,022</u>	<u>18,864,017</u>
	<u>39,591,083</u>	<u>35,599,255</u>

*Management's valuation of investments in unquoted share investment amounts to Rs. 39,591,083/- and has been determined on the basis of relative net asset portion to the percentage of ownership owned by the bank.

Net Assets per Share	2025	2024
	Rs.	Rs.
Credit Information Bureau of Sri Lanka	24,951	23,580
Lanka Clear (Private) Limited	381	335

None of these investments were disposed during the year and there were no transfers of any cumulative gain or loss within equity relating to these investments. The change in fair value on these investments was Rs. 3.992 Mn for the year ended 31st December 2025 (2024 : Rs. 3.985 Mn).

The Bank designated the investments shown above as equity securities as FVOCI because these equity security represent investments that the bank intends to hold for the long term for strategic purpose.

HABIB BANK LIMITED - SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31ST DECEMBER,

12 Property, Plant and Equipment	Freehold Land	Freehold Building	Motor Vehicles	Computer, Furniture and Fittings	Improvements on Leasehold Building	Total
Cost						
Balance as at 01st January 2024	244,500,000	93,800,000	23,250,000	181,224,658	36,523,112	579,297,770
Additions during the year	-	-	-	12,008,993	-	12,008,993
Disposals during the year	-	-	-	(137,500)	-	(137,500)
Balance as at 31st December 2024	<u>244,500,000</u>	<u>93,800,000</u>	<u>23,250,000</u>	<u>193,096,151</u>	<u>36,523,112</u>	<u>591,169,263</u>
Balance as at 01st January 2025	244,500,000	93,800,000	23,250,000	193,096,151	36,523,112	591,169,263
Additions during the year	-	2,453,980	21,700,000	17,643,249	-	41,797,229
Disposals during the year	-	-	(6,750,000)	(6,930,374)	-	(13,680,374)
Balance as at 31st December 2025	<u>244,500,000</u>	<u>96,253,980</u>	<u>38,200,000</u>	<u>203,809,026</u>	<u>36,523,112</u>	<u>619,286,118</u>
Accumulated Depreciation						
Balance as at 01st January 2024	-	390,832	23,250,000	138,660,918	36,079,500	198,381,250
Charge for the Year	-	4,690,000	-	12,539,076	26,222	17,255,298
Disposals	-	-	-	(137,500)	-	(137,500)
Balance as at 31st December 2024	<u>-</u>	<u>5,080,832</u>	<u>23,250,000</u>	<u>151,062,494</u>	<u>36,105,722</u>	<u>215,499,048</u>
Balance as at 01st January 2025	-	5,080,832	23,250,000	151,062,494	36,105,722	215,499,048
Charge for the Year	-	4,700,225	1,446,667	13,674,894	26,222	19,848,008
Disposals during the year	-	-	(6,750,000)	(6,930,328)	-	(13,680,328)
Balance as at 31st December 2025	<u>-</u>	<u>9,781,057</u>	<u>17,946,667</u>	<u>157,807,060</u>	<u>36,131,944</u>	<u>221,666,728</u>
Carrying Amount as at 31st December 2025	244,500,000	86,472,923	20,253,333	46,001,966	391,168	397,619,390
Carrying Amount as at 31st December 2024	<u>244,500,000</u>	<u>88,719,168</u>	<u>-</u>	<u>42,033,657</u>	<u>417,390</u>	<u>375,670,215</u>

12.1 Revaluation of Land and Buildings

The bank revalues its freehold land and building once in every three years to ensure that their carrying amounts do not differ materially from their fair values at the reporting date.

The Fair valuation of freehold land and building situated at No. 140-142, Second Cross Street, Colombo 11 was determined based on the valuation performed on 12th May 2023 by Sunil Fernando & Associates (Private) Limited (Mr. S.A.S. Fernando, Fellow Member of the Institute of Valuers Sri Lanka) Market values and other details are given below.

Valuation Technique	Significant Unobservable Inputs
Market Approach	Land - per perch Rs. 30,000,000/- Building - per square meter Rs. 10,000/-

Market Approach - The selling price of a similar property within a reasonably recent period of time in determining the fair value of the property being revalued. This involves evaluation of recent active market prices of similar assets, making appropriate adjustments for any differences in the nature, size, location or condition of the specific property.

HABIB BANK LIMITED - SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31ST DECEMBER,

12 Property, Plant and Equipment (Continued)

12.1 Revaluation of Land and Buildings (Continued)

*A reassessment of the valuation was obtained by the same independent professional valuers who determine no material change to the revalued carrying amount provided as at 31st December 2025.

12.2 During the financial year, the Bank acquired property, plant and equipments to the aggregate value of Rs. 41,797,229/- (2024- Rs. 12,008,993/-). Cash payments amounting to Rs. 41,797,229/- (2024- Rs. 12,008,993/-) were made during the year for the purchase of property, plant and equipment.

12.3 Property, plant and equipment includes fully depreciated assets having a gross carrying amount of Rs. 177,550,148/- (2024 - Rs.183,800,337/-).

13 Right of Use Assets and Lease Liabilities

2025 **2024**
Rs. **Rs.**

13.1 Right of Use Assets

Balance as at 1st January	27,458,753	9,824,031
Additions during the Year	24,811,925	31,991,880
Depreciation charge for the Year	<u>(15,246,201)</u>	<u>(14,357,158)</u>
Balance as at 31st December	<u><u>37,024,477</u></u>	<u><u>27,458,753</u></u>

13.2 Lease Liabilities

Balance as at 1st January	21,997,596	4,698,712
Additions during the Year	24,811,925	31,991,880
Accretion of Interest	2,803,746	1,490,528
Payments made during the Year	<u>(17,722,728)</u>	<u>(16,183,524)</u>
Balance as at 31st December	<u><u>31,890,539</u></u>	<u><u>21,997,596</u></u>

13.2.1 Amounts recognized in Statement of Profit or Loss

Interest on Lease Liabilities	2,803,746	1,490,528
Depreciation - Right of Use Assets	<u>15,246,201</u>	<u>14,357,158</u>
Total amount recognized in Statement of Profit or Loss	<u><u>18,049,947</u></u>	<u><u>15,847,686</u></u>

13.2.2 Amounts recognised in Statement of Cash Flows

Cash Outflow for Leases - Repayment	<u><u>17,722,728</u></u>	<u><u>16,183,524</u></u>
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13.3 Maturity Analysis of Lease Liabilities (Undiscounted)

Current	18,197,712	11,881,728
Non-current	<u>18,231,000</u>	<u>12,356,712</u>
	<u><u>36,428,712</u></u>	<u><u>24,238,440</u></u>

14 Other Assets

2025 **2024**
Rs. **Rs.**

Clearing Balance Receivable (Note 14.1)	115,106,285	134,386,725
Other Receivables (Note 14.2)	14,071,864	6,806,764
Deposits and Prepayments	<u>2,280,211</u>	<u>3,005,038</u>
	<u><u>131,458,360</u></u>	<u><u>144,198,527</u></u>

14.1 Inward and Outward net cheque clearing balance to be settled by the Lanka Clear (Private) Limited amounting to Rs 115,106,286/- (2024 - Rs. 134,386,725/-) is included in the other assets balance as at 31st December 2025.

14.2 Other Receivable

2025 **2024**
Rs. **Rs.**

Stationary on hand	32,810	52,786
VISA settlements-receivables	8,153,884	431,500
Stamps on Hand	(12,100)	(4,593)
WHT Receivables	5,892,944	6,219,524
other advances	<u>4,326</u>	<u>107,548</u>
	<u><u>14,071,864</u></u>	<u><u>6,806,764</u></u>

HABIB BANK LIMITED - SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31ST DECEMBER,

15 Due to Banks	2025 Rs.	2024 Rs.
Deposits from Other Banks - Overdrawn Nostros	-	891,443
Deposits from Other Banks - Vostro's	<u>531,245</u>	<u>410,167</u>
	<u>531,245</u>	<u>1,301,610</u>
16 Financial Liabilities at Amortized Cost - Due to Customers	2025 Rs.	2024 Rs.
16.1 Due to Customers - by Products		
Demand Deposits	2,087,855,032	1,645,971,712
Savings Deposits	1,827,605,434	3,165,697,648
Time Deposits	6,938,025,462	7,321,961,689
Call Deposits	400,000	400,000
Margin Balances	<u>162,889,073</u>	<u>250,701,256</u>
	<u>11,016,775,001</u>	<u>12,384,732,305</u>
16.2 Due to Customers by Currency		
Local currency - Sri Lankan Rupees	6,411,257,268	7,696,389,228
Foreign currency - United States Dollar	4,100,790,299	4,247,451,363
Foreign currency - Others	<u>504,727,432</u>	<u>440,891,714</u>
	<u>11,016,774,999</u>	<u>12,384,732,305</u>
17 Financial Liabilities measured at Amortized Cost - Other Borrowings	2025 Rs.	2024 Rs.
REPO Borrowings*	-	1,588,279,111
Call Borrowings	-	300,065,753
	<u>-</u>	<u>1,888,344,864</u>

*Securities sold under agreements to repurchase at a specified future date are not de-recognised from the statement of financial position, as the Bank retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognised in the statement of financial position as an asset and a corresponding obligation to return it with accrued interest, as "securities sold under repurchase agreements", reflecting the transaction's economic substance as a loan to the Bank. The difference between the sale and repurchase price is treated as interest expense and is accrued over the life of the agreement using the Effective Interest Rate (EIR).

18 Retirement Benefit Obligations	2025 Rs.	2024 Rs.
As at 1 st January	54,701,300	47,486,761
Current Service Cost	6,104,497	4,109,626
Interest Cost	5,470,130	6,648,147
Actuarial Loss on Retirement Benefit Obligations	7,357,763	7,240,773
Payments made during the year	<u>(4,667,167)</u>	<u>(10,784,007)</u>
As at 31 st December	<u>68,966,523</u>	<u>54,701,300</u>

18.1 Based on the Sri Lanka Accounting Standard (LKAS) 19 – "Employee Benefits" the Bank has adopted the Actuarial Valuation Method. Bank measures the Present Value of Defined Benefit Obligations (PVDBO) with the advice of an actuary using the Projected Unit Credit Method. Accordingly, provisions have been made based on the above method.

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

Accordingly, the employee benefits obligation is based on the actuarial valuation as at 31st December 2025, carried out by Messrs. Actuarial and Management Consultants (Private) Limited.

Key assumptions used in actuarial valuation include the following:

	2025	2024
Rate of Discount*	9%	10%
Rate of Salary Increment	9.50%	10%
Retirement Age	60 Years	60 Years
Average future working life of employees	5.6 Years	6.0 Years
Weighted Average duration of Defined Benefit Liability		
Unionized Staff	2.5 Years	3.3 Years
Other Staff	<u>5.8 Years</u>	<u>6.3 Years</u>

*A long-term Treasury Bond rate of 9.50% p.a. (2024 – 10% p.a.) has been used to discount future liabilities taking into consideration remaining working life of eligible employees.

Assumptions regarding mortality in service are based on the A1967/70 Mortality Table issued by the Institute of Actuaries, London.

AS AT 31ST DECEMBER,

18 Retirement Benefit Obligations (Continued)

18.2 Amount recognised in the Statement of Profit or Loss as Personnel Expenses	2025 Rs.	2024 Rs.
Current Service Cost	6,104,497	4,109,626
Interest Cost	5,470,130	6,648,147
	<u>11,574,627</u>	<u>10,757,773</u>
Amount Recognised in the Other Comprehensive Income		
Actuarial Losses - due to changes in financial assumptions	1,208,731	6,156,969
Actuarial Losses - experience adjustment (Financial and Demographic)	6,202,049	543,365
Actuarial Losses - due to changes in demographic assumptions	(53,017)	540,439
	<u>7,357,763</u>	<u>7,240,773</u>

18.3 Sensitivity Analysis

The following table demonstrates the sensitivity to a reasonably possible change in the key assumptions employed with all other variables held constant in the employment benefit liability measurement.

The effect in the statement of financial position with the assumed changes in the discount rates and salary increment rate is given below:

	2025 Rs.	2024 Rs.
1% increase in discount rate	(2,650,950)	(2,292,796)
1% decrease in discount rate	2,882,752	2,497,465
1% increase in salary increment rate	3,150,675	2,714,387
1% decrease in salary increment rate	(2,949,994)	(2,535,777)

18.4 Maturity Analysis

	Defined Benefit Obligation	
	Category 1	Other Staff
Future working life time		
Within the next 12 months	8,707,163	4,707,392
Between 1-2 Years	15,958,779	7,988,044
Between 3-5 Years	5,895,337	11,026,841
Beyond 5 Years	-	14,682,966
Total	<u>30,561,279</u>	<u>38,405,243</u>
Weighted average duration of Defined Benefit Obligation	2 years	6 years

19 Current Tax Liabilities

	2025 Rs.	2024 Rs.
Balance as at 1st January	223,522,007	283,596,580
Provision for the Year	195,041,595	310,000,000
Payment Made for the Previous Year	(161,332,707)	(240,030,226)
WHT Credits	(6,216,541)	(6,684,437)
Self-Assessment Payments	(99,081,586)	(123,359,910)
Balance as at 31st December	<u>151,932,768</u>	<u>223,522,007</u>

20 Deferred Tax Liabilities

	2025 Rs.	2024 Rs.
Balance as at 1st January	37,938,270	62,037,052
Recognised in the Profit or Loss	28,966,181	(24,897,012)
Recognised in the Other Comprehensive Income	(12,913,870)	798,230
Balance as at 31st December	<u>53,990,581</u>	<u>37,938,270</u>

20.1 Composition of Deferred Tax (Assets) / Liabilities

	2025		2024	
	Temporary Difference Rs.	Tax Effect Rs.	Temporary Difference Rs.	Tax Effect Rs.
Deferred Tax Liabilities on;				
Property, Plant and Equipment	31,038,467	9,311,540	8,297,628	2,489,288
Revaluation Surplus of Land & Building	320,370,340	96,111,102	322,276,669	96,683,001
Gain on Financial Assets at Fair Value through OCI	86,585,885	25,975,765	120,368,025	36,110,408
Right of Use Assets	37,024,477	11,107,343	27,458,753	8,237,626
	<u>475,019,169</u>	<u>142,505,750</u>	<u>478,401,075</u>	<u>143,520,323</u>
Deferred Tax Assets on;				
ECL Impairment of Financial Assets	(194,193,497)	(58,258,049)	(275,241,279)	(82,572,384)
Retirement Benefit Obligations	(68,966,523)	(20,689,958)	(54,701,300)	(16,410,390)
Lease Liabilities	(31,890,539)	(9,567,162)	(21,997,596)	(6,599,279)
	<u>(295,050,559)</u>	<u>(88,515,169)</u>	<u>(351,940,175)</u>	<u>(105,582,053)</u>
Net Deferred Tax Liabilities	<u>179,968,611</u>	<u>53,990,581</u>	<u>126,460,900</u>	<u>37,938,270</u>

Deferred tax has been determined based on the tax rate of 30% as per tax laws issued by Department of Inland Revenue.

HABIB BANK LIMITED - SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31ST DECEMBER,

21 Other Liabilities	2025 Rs.	2024 Rs.
Accrued Expenses	82,757,102	83,096,538
Bills Payable	2,887,123	14,749,704
Locker Deposits	5,225,000	5,100,000
Other Liabilities	8,773,409	4,975,346
Miscellaneous Deposits	-	2,167,350
SLFRS 09 Provision on Unfunded Facilities (Note 21.1)	25,466,922	25,466,922
	<u>125,109,556</u>	<u>135,555,860</u>
21.1 SLFRS 09 Provision on Unfunded Facilities		
Stage 1		
Opening Balance	25,466,922	12,659,646
Charge during the Year	-	12,807,276
Closing balance	<u>25,466,922</u>	<u>25,466,922</u>
Total Provision on Unfunded Facilities	<u>25,466,922</u>	<u>25,466,922</u>
22 Assigned Capital	2025 Rs.	2024 Rs.
Assigned Capital	<u>4,938,390,142</u>	<u>4,938,390,142</u>
	<u>4,938,390,142</u>	<u>4,938,390,142</u>
22.1 The assigned capital represents the capital injections remitted by Head Office, Habib Bank - Karachi to the Bank.		
23 Statutory Reserve Fund	2025 Rs.	2024 Rs.
Balance as at 1st January	166,229,500	147,166,481
Transfer from the Profits during the Year* (Note 26)	17,800,682	19,063,019
Balance as at 31st December	<u>184,030,182</u>	<u>166,229,500</u>
*Five percent 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 and amendments thereto. This reserve fund will be used only for the purposes specified in Section 20 (2) of the Banking Act No. 30 of 1988 and amendments thereto. Transfers made during the was Rs. 18,473,626/- (2024 : Rs. 19,063,019/-)		
24 Revaluation Reserve	2025 Rs.	2024 Rs.
Balance as at 1st January	255,903,112	254,598,086
Deferred Tax related to Revaluation of Land and Building	571,899	1,305,026
Balance as at 31st December	<u>256,475,011</u>	<u>255,903,112</u>
Revaluation reserve comprises with revaluation surplus of land and buildings of the Bank.		
25 Exchange Equalisation of Reserves	2025 Rs.	2024 Rs.
Balance as at 1st January	23,252,202	27,518,921
Exchange Differences on Translation of Foreign Currency Reserves	2,370,398	(4,266,719)
Balance as at 31st December	<u>25,622,600</u>	<u>23,252,202</u>
Exchange Equalisation of Reserve represents the effect of currency translation of statutory reserve fund maintained in Foreign Currency Banking Unit resulting from fluctuations in exchange rates.		
26 Retained Earnings	2025 Rs.	2024 Rs.
Balance as at 1st January	2,798,630,521	2,441,501,693
Profit Repatriation	(971,206,418)	-
Profit for the Year	356,013,643	381,260,388
Other Comprehensive Income for the Year	(7,357,763)	(7,240,773)
Deferred Tax recognized in OCI	2,207,329	2,172,232
Transfers to Statutory Reserve Fund (Note 23)	(17,800,682)	(19,063,019)
Balance as at 31st December	<u>2,160,486,630</u>	<u>2,798,630,521</u>

HABIB BANK LIMITED - SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER,

	2025	2024
	Rs.	Rs.
27 Interest Income		
Government Securities		
Treasury Bills	894,736,554	1,236,946,887
Treasury Bonds	200,209,905	223,303,257
Loans and Advances to Customers	302,820,675	251,928,610
Placements with Banks and CBSL	183,200,053	229,574,169
Other Financial Assets	-	3,798,151
Nostro Balances	1,766,798	150,757
Reverse Repurchase Agreements	1,856	10,986
	<u>1,582,735,841</u>	<u>1,945,712,817</u>
28 Interest Expense		
Due to Customers	510,777,889	591,546,585
Money Market and Other Borrowings	56,215,981	63,399,247
Interest Expense on Lease Liabilities	2,803,746	1,490,528
	<u>569,797,616</u>	<u>656,436,360</u>
29 Fees and Commission Income / Expense		
29.1 Fees and Commission Income		
Commission on Trade Finance Facilities	28,034,704	42,359,508
Commission on Remittances	15,838,894	20,248,632
Commission on Guarantees	19,984,158	17,286,201
Swift Charges Recovery	7,095,635	7,657,016
Courier Charges Recovery	795,412	699,648
	<u>71,748,803</u>	<u>88,251,005</u>
29.2 Fees and Commission Expense		
Swift Charges	7,007,359	5,451,757
Courier Charges	1,028,376	1,007,552
	<u>8,035,735</u>	<u>6,459,309</u>
30 Other Operating Income		
Foreign Exchange Gain	86,991,340	102,249,046
Other Income	12,457,310	18,601,567
Dividend Income	2,791,910	2,678,520
Gain on Disposal of Property, Plant and Equipments	8,569,954	20,000
	<u>110,810,514</u>	<u>123,549,133</u>
Other Income includes incidental charges earned from customers, ATM related fees and charges, loan processing fees, cheque book charges, cheque return charges, etc.		
31 Impairment Charges		
Collective impairment (Charge) / reversal - S1 & S2	81,229,299	-
Collective Impairment (Charge) / reversal (Note 31.1) - S3	10,180,037	(78,133,416)
	<u>91,409,336</u>	<u>(78,133,416)</u>
31.1 Loans and Receivables from Other Customers (Note 9.3)	94,717,786	(65,326,140)
Placements and Investments (Note 7.1 and Note 10.2)	(3,309,162)	(27,099)
Off Balance Sheet Obligations (Note 21.1)	-	(12,807,276)
Balances with Banks (Note 5.1)	712	27,099
	<u>91,409,336</u>	<u>(78,133,416)</u>
32 Personnel Expenses		
Salaries	178,053,844	146,175,968
Employee Benefits - Retirement Benefit Obligations (Note 18.2)	11,574,627	10,757,773
Employee Benefits - Defined Contribution Plan		
Employee Provident Fund (EPF)	21,738,300	16,589,228
Employee Trust Fund (ETF)	5,434,586	4,164,194
Staff Insurance	4,766,069	5,602,825
Bonus	38,426,257	47,562,647
Other Allowances	64,205,373	86,151,755
	<u>324,199,056</u>	<u>317,004,390</u>

Other allowances includes Traveling allowances, Electricity and Gas allowances, Medical reimbursements and allowances, staff house rent allowances, Education allowances, etc.

HABIB BANK LIMITED - SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER,

33 Other Operating Expenses	2025	2024
	Rs.	Rs.
Insurance Charges	23,827,560	26,502,916
Communication Charges	18,480,443	18,462,853
Visa Charges	17,079,969	17,150,090
Financial Charges	14,166,027	14,649,185
Travelling Expenses	12,216,598	11,310,214
Lighting Charges and Water	8,579,704	10,706,993
Professional Fees	11,400,000	10,555,267
Maintenance Charges	10,207,115	10,450,618
Outsource Charges	11,483,763	9,745,477
Other Expenses	6,668,261	8,480,445
Security Charges	9,408,929	8,196,977
Crop Insurance	2,595,194	6,421,914
License Fee	7,011,202	5,235,631
Janitorial Charges	5,094,299	4,742,209
Clearing Charges	3,795,189	4,030,539
Marketing Expenses	5,231,044	3,956,626
Printing and Stationery Charges	2,739,102	3,686,881
Legal Fees	1,670,210	2,319,873
Staff Training	828,103	2,108,059
Brokerage Fees	2,650,526	1,986,280
Subscription	3,285,252	1,355,062
Entertainment	1,259,467	1,109,693
	<u>179,677,957</u>	<u>183,163,802</u>
34 Income Taxes, Other Taxes and Levies	2025	2024
	Rs.	Rs.
34.1 Taxes and Levies on Financial Services		
Value Added Tax (VAT)	137,713,620	193,442,772
Social Security Contribution Levy (SSCL)	22,164,882	24,897,074
	<u>159,878,502</u>	<u>218,339,846</u>

VAT on financial services is calculated in accordance with Value Added Tax Act No. 14 of 2002 and subsequent amendments thereto.

The value base for computation of VAT is the operating profit before taxes on financial services adjusted for emoluments of employees and depreciation computed as per prescribed rates. Value added tax rate was 18% effective from 1st January 2024.

SSCL on financial services is calculated in accordance with social security contribution Levy Act No. 25 of 2022. SSCL is chargeable on the value addition at 2.5% effective from 1st October 2022 onwards.

34.2 Income Tax Expenses	2025	2024
	Rs.	Rs.
<u>Income Tax Expense recognised in Statement of Profit or Loss</u>		
<i>Current Tax Expense</i>		
Current Income Tax on Profit for the Year	(195,041,595)	(310,000,000)
Over Provision of Current Taxes in Respect of Prior Years	-	-
<i>Deferred Taxation</i>		
Deferred Tax (Charge)/Reversal for the Year (Note 20)	(28,966,183)	24,897,012
Total Tax Expense	<u>(224,007,778)</u>	<u>(285,102,988)</u>
Effective Tax Rate	38.62%	42.78%
Effective Tax Rate (Excluding Deferred Tax)	33.63%	46.52%
<u>Deferred Tax Recognized in Statement of Other Comprehensive Income</u>		
Deferred Tax Recognized on Fair Value Gain from Financial Instruments at FVOCI	10,134,642	(4,275,488)
Deferred Tax Recognized on Actuarial Loss on Retirement Benefit Obligations	2,207,329	2,172,232
Deferred Tax Recognized on Revaluation of Land and Building	571,899	1,305,026
	<u>12,913,870</u>	<u>(798,230)</u>

The Inland Revenue Act No.45 of 2022 and subsequent amendments thereto, the standard rate of income tax is 30%. The Bank has computed the current and deferred tax at the rate of 30%.

As per Section 66 (2) and 66 (3) of the Inland Revenue Act No. 24 of 2017 the Commissioner General of Inland Revenue has specified the amount of impairment charges that can be deducted in accordance with the directives of Central Bank of Sri Lanka. Accordingly, the Gazette Notification issued under the reference of 2303/05 dated 25th October 2022 specifies that impairment charges for Stage 3 credit facilities prepared in accordance with the Sri Lanka Accounting Standards (SLFRS 9) considered as allowable subject to the conditions laid out therein.

HABIB BANK LIMITED - SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER,

34 Income Taxes, Other Taxes and Levies (Continued)	2025	2024
	Rs.	Rs.
34.3 Reconciliation of the Accounting Profit to Income Tax Expense		
Accounting Profit before Income Tax	580,021,421	666,363,376
(+) Disallowable Expenses	187,733,296	370,301,935
(-) Disallowable Income	(2,791,910)	(2,678,520)
(-) Allowable Expenses	(128,283,031)	(45,159,224)
Total Business Profit	<u>636,679,776</u>	<u>988,827,567</u>
Income from Other Sources (Dividend Receipts)	2,791,910	2,678,520
(-) Final Withholding Payment	(2,791,910)	(2,678,520)
Total Taxable Income at 30%	<u>636,679,776</u>	<u>988,827,567</u>
Tax on Total Taxable Income (at 30%)	191,003,933	296,648,270
Over provision made for the Current Year	4,304,316	13,351,730
Reversal to Deferred Taxation	28,966,183	(24,897,012)
Total Income Tax Expense	<u>224,274,432</u>	<u>285,102,988</u>
34.4 Reconciliation of Effective Tax Rate		
Accounting Profit before Tax	580,021,421	666,363,376
Tax using 30% Tax Rate on Profit before Tax (PBT)	174,006,426	199,909,013
Tax Effect from Expenses not Deductible for Tax Purposes	56,319,989	124,442,310
Tax Effect from Allowable Deductions and Income not Subject to Tax	(39,322,482)	(14,351,323)
Tax paid for Previous Years	-	-
Deferred Tax Reversal during the Year	28,966,183	(24,897,012)
Over provision made for the Current Year	4,304,316	-
Tax Charge for the Year	<u>224,274,432</u>	<u>285,102,988</u>
35 Cash Flow Information	2025	2024
	Rs.	Rs.
Cash Flows from Operating Activities		
35.1 Reconciliation of Operating Profit		
Profit before Tax	580,021,421	666,363,376
Adjustments for;		
Gain on Disposal of Property, Plant and Equipment (Note 30)	(8,569,954)	(20,000)
Depreciation of Property, Plant and Equipment (Note 12)	19,848,008	17,255,298
Depreciation of Right to Use Assets (Note 13.1)	15,246,201	14,357,158
Impairment Charge for Loans and Advances (Note 9.3)	(80,256,253)	52,063,821
Net of Impairment Charge / (Reversal) for Investments and Placements (Note 31.1)	3,309,162	27,099
Impairment (Reversal) / Charge for NOSTRO Balances (Note 5.1)	(712)	(27,099)
Impairment Charge on Off Balance Sheet Obligations (Note 31.1)	-	12,807,276
Dividend Income (Note 30)	(2,791,910)	(2,678,520)
Provision for Retirement Benefit Obligations (Note 18.2)	11,574,627	10,757,773
Interest on Lease Liabilities (Note 28)	2,803,746	1,490,528
Unrealized Fair Value Losses on Financial Instruments measured at FVTPL	(9,585,271)	4,542,348
Operating Profit before Changes in Operating Assets & Liabilities	<u>531,599,065</u>	<u>776,939,058</u>
35.2 Increase / (Decrease) in Operating Assets		
Placement with banks	(436,997,368)	114,935,557
Balances with Central Bank of Sri Lanka	70,080,700	(82,980,726)
Other Financial Assets	4,644,161,768	(4,615,503,356)
Loans and Advances to Customers	(289,472,642)	(578,634,803)
Other Assets	12,740,166	(61,878,415)
	<u>4,000,512,624</u>	<u>(5,224,061,743)</u>
35.3 (Decrease)/Increase in Operating Liabilities		
Due to Banks (Vostro)	(770,365)	(27,166,051)
Due to Customers	(1,367,957,304)	2,855,085,815
Other Borrowing	(1,888,344,864)	1,638,153,862
Other Liabilities	(10,446,303)	4,197,826
	<u>(3,267,518,836)</u>	<u>4,470,271,452</u>

HABIB BANK LIMITED - SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER,

36 Related Party Disclosures

The Bank carries out transactions in the ordinary course of business with the parties who are defined as related parties in the Sri Lanka Accounting Standards - LKAS 24 (Related Party Disclosures), the details of which are reported below.

As per Sri Lanka Accounting Standard - LKAS 24 (Related Party Disclosures), Key Management Personnel (KMP) are those having authority and responsibility for planning, directing and controlling the activities of the entity. According to the above definition, a person cannot be considered as a KMP unless such person has both the authority and responsibility to carry out all the three activities mentioned in the above definition (i.e. planning, directing and controlling the activities of the entity).

Accordingly, the Country Manager and Senior Management of Habib Bank Limited, Sri Lanka Branch is considered as KMP of the Bank.

36.1 Transactions with Key Management Personnel (KMP)

	2025	2024
	Rs.	Rs.
Short Term Employee Benefits*	120,073,004	115,618,536
Deposits	355,629	26,199,428
Interest Expense	19,749	580,209
	<u>120,448,382</u>	<u>142,398,173</u>

*Short term employee benefits include the two months remuneration of former Regional General Manager in addition to the remuneration of the Country Manager.

36.2 Transactions with Affiliate Branches - Items in the Statement of Financial Position

Balances due from Banks (Nostro Balances)

Habib Allied International Bank- United Kingdom	17,194,317	14,833,313
Habib Bank Limited - Baharain	26,428,278	14,183,899
Habib Bank Limited - Singapore	11,934,192	10,713,341
Habib Bank Limited - Bangladesh	7,031,290	6,643,595
Habib Bank Limited - Pakistan	3,210,908	3,150,682
Habib Bank Limited - UAE	2,909,669	-
Habib Bank Limited - Urumqi Branch China	2,006,425	1,290,098
	<u>70,715,079</u>	<u>50,814,928</u>

Balances due to Banks (Vostro Balances)

Habib Bank Limited - Head Office Treasury - Karachi	302,635	285,637
Habib Bank Limited - Deira Branch - Dubai	112,078	112,078
Habib Bank Limited - Male	116,532	12,452
	<u>531,245</u>	<u>410,167</u>

Balances due to Banks (Overdrawn Nostro Balances)

Habib Bank Limited - UAE	-	891,443
	<u>-</u>	<u>891,443</u>

36.3 Transactions with Habib Bank Limited - Employee Provident Fund

Items in the Statement of Financial Position - Liabilities

Saving Deposit	89,857,065	173,573,224
	<u>89,857,065</u>	<u>173,573,224</u>

Items in the Statement of Profit or Loss and Other Comprehensive Income

Employee Benefits - Employee Provident Fund	21,738,300	16,589,228
Interest Expense	13,092,706	12,777,000
	<u>34,831,006</u>	<u>29,366,228</u>

HABIB BANK LIMITED - SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31ST DECEMBER,

37 Maturity Analysis of Assets and Liabilities	Within 12 Months	After 12 Months	2025 Total	Within 12 Months	After 12 Months	2024 Total
Assets						
Cash and Cash Equivalents	2,239,836,393	-	2,239,836,393	2,263,534,896	-	2,263,534,896
Balances with Central Bank of Sri Lanka	91,027,646	-	91,027,646	161,108,346	-	161,108,346
Placements with Financial Institutions	1,818,010,219	-	1,818,010,219	1,384,322,014	-	1,384,322,014
Derivative Financial Instruments	5,419,182	-	5,419,182	-	-	-
Financial assets at Amortized Cost	-	978,291,484	978,291,484	3,856,897,250	935,522,922	4,792,420,172
Other Financial Assets at Amortized Cost	-	-	-	-	-	-
Loans and Advances to Customers	3,427,559,462	902,587,077	4,330,146,538	3,272,715,994	687,701,650	3,960,417,644
Financial Assets measured at FVOCI	8,464,389,278	590,633,758	9,055,023,036	9,649,059,969	269,778,289	9,918,838,258
Other Assets	131,458,360	-	131,458,360	144,198,527	-	144,198,527
Property, Plant and Equipment	-	397,619,390	397,619,390	-	375,670,215	375,670,215
Right of Use Assets	15,626,345	21,398,132	37,024,477	12,351,476	15,107,277	27,458,753
Total Assets	16,193,326,885	2,890,529,841	19,083,856,725	20,744,188,471	2,283,780,353	23,027,968,824
Liabilities						
Due to Banks	531,245	-	531,245	1,301,610	-	1,301,610
Derivative Financial Instruments	-	-	-	4,166,089	-	4,166,089
Due to Customers	11,016,775,001	-	11,016,775,001	12,384,732,305	-	12,384,732,305
Borrowings	-	-	-	1,888,344,864	-	1,888,344,864
Lease Liabilities	13,659,539	18,231,000	31,890,539	9,640,884	12,356,712	21,997,596
Other Liabilities	94,417,635	30,691,921	125,109,556	104,988,938	30,566,923	135,555,861
Current Tax Liabilities	151,932,768	-	151,932,768	223,522,007	-	223,522,007
Retirement Benefit Obligations	-	68,966,523	68,966,523	-	54,701,300	54,701,300
Deferred Tax Liabilities	-	53,990,581	53,990,581	-	37,938,270	37,938,270
Total Liabilities	11,277,316,188	171,880,024	11,449,196,213	14,616,696,697	135,563,205	14,752,259,902

AS AT 31ST DECEMBER,

38 Fair Value Measurement

38.1 Assets and Liabilities Measured at Fair Value - Fair Value Hierarchy - As at 31st December 2025

38.1.1 Assets and Liabilities Measured at Fair Value

The following table provides an analysis of assets and liabilities recorded at fair value by level of the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the value recognized in the Statement of Financial Position. The fair values include any deferred differences between the transaction price and the fair value on initial recognition when the fair value is based on a valuation technique that uses unobservable inputs. Please refer Note 3.2.6 of the financial statements on accounting policies of fair value measurement.

As at 31st December 2025	Date of valuation	Carrying Value Total	Fair Value Total	Quoted prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		Rs.	Rs.	Rs.	Rs.	Rs.
Assets Measured at Fair Value						
Freehold Land*	12th May 2023	244,500,000	244,500,000	-	-	244,500,000
Freehold Building*	12th May 2023	93,800,000	93,800,000	-	-	93,800,000
Financial Assets measured at FVOCI - Investment in Government Securities (Note 11)	31st December 2025	9,015,431,953	9,015,431,953	9,015,431,953	-	-
Financial Assets measured at FVOCI - Unquoted Investments in Lanka Clear (Private) Limited and Credit Information Bureau of Sri Lanka (Note 11)	31st December 2025	39,591,083	39,591,083	-	-	39,591,083
Derivative Financial Assets - Foreign Currency Forward Contracts		5,419,182	5,419,182	-	5,419,182	-
		<u>9,398,742,218</u>	<u>9,398,742,218</u>	<u>9,015,431,953</u>	<u>5,419,182</u>	<u>377,891,083</u>

38.1.2 Assets not Carried at Fair Value for which Fair Values are Disclosed

As at 31st December 2025,

Other Financial Assets (Note 10)	31st December 2025	978,291,484	998,819,655	-	-	998,819,655
Loans and Advances to Customers (Note 9)	31st December 2025	4,330,146,538	4,334,245,015	-	-	4,334,245,015
		<u>5,308,438,022</u>	<u>5,333,064,670</u>	<u>-</u>	<u>-</u>	<u>5,333,064,670</u>

*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.

During the year ended 31st December 2025, there were no transfers between levels of the fair value hierarchy.

AS AT 31ST DECEMBER,

38 Fair Value Measurement

38.2 Assets and Liabilities Measured at Fair Value - Fair Value Hierarchy - As at 31st December 2024

38.2.1 Assets Measured at Fair Value

The following table provides an analysis of assets and liabilities recorded at fair value by level of the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the value recognized in the Statement of Financial Position. The fair values include any deferred differences between the transaction price and the fair value on initial recognition when the fair value is based on a valuation technique that uses unobservable inputs. Please refer Note 3.2.6 of the financial statements on accounting policies of fair value measurement.

As at 31st December 2024	Date of valuation	Carrying Value Total Rs.	Fair Value Total Rs.	Quoted prices in active market (Level 1) Rs.	Significant observable inputs (Level 2) Rs.	Significant unobservable inputs (Level 3) Rs.
Assets Measured at fair value						
Freehold Land*	12th May 2023	244,500,000	244,500,000	-	-	244,500,000
Freehold Building*	12th May 2023	93,800,000	93,800,000	-	-	93,800,000
Financial Assets measured at FVOCI - Investment in Government Securities (Note 11)**	31st December 2024	9,883,239,003	9,883,239,003	9,883,239,003	-	-
Financial Assets measured at FVOCI - Unquoted Investments in Lanka Clear (Private) Limited and Credit Information Bureau of Sri Lanka (Note 11)	31st December 2024	35,599,257	35,599,256	-	-	35,599,256
Derivative Financial Assets - Foreign Currency Forward Contracts		-	-	-	-	-
		10,257,138,259	10,257,138,259	9,883,239,003	-	373,899,256
Liabilities Measured at Fair Value						
Derivative Financial Liabilities						
Foreign Currency Forward Contracts		4,166,089	4,166,089	-	4,166,089	-
		4,166,089	4,166,089	-	4,166,089	-
38.2.2 Assets not Carried at Fair Value for which Fair Values are Disclosed						
As at 31st December 2024						
Other Financial Assets (Note 10)	31st December 2024	4,792,420,172	4,934,999,493		-	4,934,999,493
Loans and Advances to Customers (Note 9)	31st December 2024	3,960,417,644	3,954,261,466		-	3,954,261,466
		8,752,837,816	8,889,260,959		-	8,889,260,959

*Land 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 (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER,

38 Fair Value Measurement (Continued)

38.3 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	2025		2024	
	Fair Value Rs.	Carrying Value Rs.	Fair Value Rs.	Carrying Value Rs.
Other Financial Assets	998,819,655	978,291,484	4,934,999,493	4,792,420,172
Loans and Advances to Customers	4,334,245,015	4,330,146,538	3,954,261,466	3,960,417,644
	5,333,064,670	5,308,438,022	8,889,260,959	8,752,837,816

Assets for which Fair Value approximates Carrying Value

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

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

Assets

Cash and Cash Equivalents
Balances with Central Bank of Sri Lanka

Liabilities

Due to Banks
Other Borrowings
Due to Customers

Fixed Rate Financial Instruments

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

Based on Bank policy, land and buildings were revalued and recognized in Level 3. Please refer Note 12 to the financial statements for more details.

AS AT 31ST DECEMBER,

39 Risk Management

39.1 Risk Management Framework

Risk is an integral aspect of the banking industry, where success depends on effectively balancing risk and return. The performance of any institution—particularly in banking—relies heavily on its ability to manage risk well. 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, monitoring and controlling risks to an organization'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 Global Risk Management Policy comprising of an effective risk management strategy, risk management structure and a policy framework.

The Integrated Risk Management Committee holds ultimate responsibility for ensuring the development and implementation of a comprehensive Risk Management Policy.

39.1.1 Components of Risk Management Framework

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

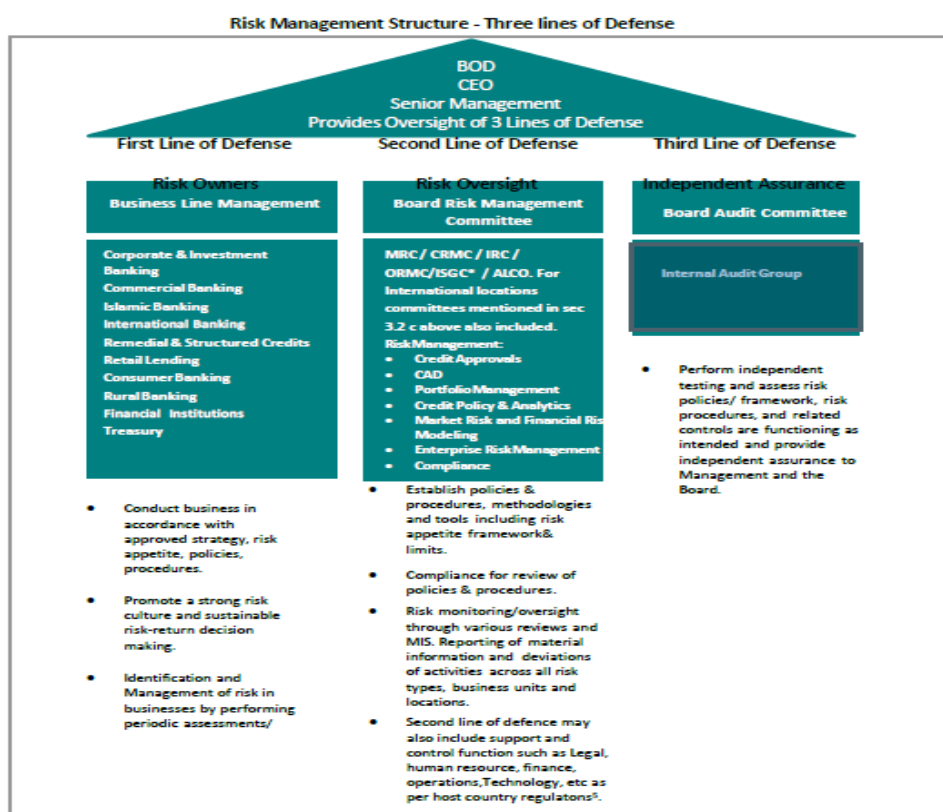
39.1.1.1 Strategy

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

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

39.1.1.2 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:

AS AT 31ST DECEMBER,

39 Risk Management (Continued)

39.1 Risk Management Framework (Continued)

39.1.1 Components of Risk Management Framework

39.1.1.2 Risk Management Structure (Continued)

Country Manager (CM)

The CM is ultimately responsible for any financial loss or reductions in Capital suffered by the Bank. Therefore, it is the duty of the CM 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, Country Operations Manager, Country 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 (Chairman ALCO) and other members are Head of Treasury (Secretary), Country Operations Manager, Financial Controller, Country / Regional Risk Manager and Business Heads.

Early Alert Committee

Early Alert Process is being established to provide comprehensive and well-structured assistance to senior management in proactively identifying potential portfolio deterioration. The objective is to enhance the credit risk management process and to ensure timely identification of problem credits for appropriate remediation actions. This supports escalation of issues to senior stakeholders and will strengthen the identification recognition and the collection of non-performing loans and This process envisages establishment of “Early Warning Committees” at both Habib Bank Limited - Sri Lanka and Head Office - Karachchi levels.

Risk Management Group

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

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

Country / Regional Risk Manager (RRM)

RRM shall be responsible for managing following significant areas:

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

AS AT 31ST DECEMBER,

39 Risk Management (Continued)

39.1 Risk Management Framework (Continued)

39.1.1.2 Risk Management Structure (Continued)

The Impact of Economic Condition on the Business/Operations and Risk Management of the Bank

Despite the improvements in the economic indicators, uncertainty remains in the local economic environment impacting the credit worthiness of the corporate and the individuals resulting in non performing loans and recognition of impairment losses by the Bank.

The Banks total exposure to Sri Lanka government securities is presented in Note 10. The main uncertainty in estimating the recoverability of the Bank's total exposure to Sovereign Bonds SLSBs relates to the debt service capacity of the country. This in turn is affected by the prevailing macro-economic environment and the negotiations of Government of Sri Lanka in relation to the debt restructuring and financing.

The significant accounting estimates impacted by these forecasts and associated uncertainties predominately relate to expected credit losses, fair value measurement and the assessment of the recoverability amount of financial assets. The impact of the economic conditions on each of these estimates is discussed further in the relevant notes of the financial statements.

39.2 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 1st 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 31st December 2025 are given below:

Credit Risk

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

Increased probability of defaults by borrower in SLFRS model and impact on Capital Adequacy ratio.

Adverse change in LGD in IFRS model leading to higher provisioning and impact of the same on Capital Adequacy ratio

Adverse movement of major exposure (FB + NFB) from Stage 1 to Stage 2 and impact of the same on capital Adequacy ratio.

Adverse change in GDP and its impact on impairment in IFRS model leading to higher provisioning and impact of the same on CAR

Credit Concentration Risk

Impact of default of Large borrowers and Sectors on CAR

Exchange Rate Risk

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

Interest Rate Risk

Impact of change in interest rate on CAR for banking book

Liquidity Risk

Impact of reduction in liquid liabilities and assets on liquidity ratio

Impact of withdrawal of all Deposits and unsecured borrowings (excluding intra-group borrowing) Over a Given Period

Impact of run-off on demand deposit within 1 month band.

Impact on Liquidity Coverage Ratio (LCR) in case of various Liquid shocks to withstand an acute liquidity stress scenario over a 30-day horizon

Other Stress Test

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

Pillar III - Disclosures

As per requirements of Basel III the risk management disclosures are covered in Note 39.

AS AT 31ST DECEMBER,

39 Risk Management (Continued)

39.3 Credit Risk

39.3.1 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.

39.3.2 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 Procedure Manual ("CPM") is the customised form of the global Credit Policy Manual of HBL for implementation at HBL SL, it outlines the principles by which the Bank conducts its credit risk management activities.

39.3.3 Credit Risk Management

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

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

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

Credit Risk Management Organisation

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

International Risk Management, (based in Pakistan)

Integrated Risk Management Committee (IRMC)

Country Risk Management

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

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.

AS AT 31ST DECEMBER,

39 Risk Management (Continued)

39.3 Credit Risk (Continued)

39.3.3 Credit Risk Management (Continued)

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

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

Credit Risk Monitoring and Reporting

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

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

Currently Bank is performing ECL computation based on the scenario weightage of 65% in base case, best case 5% & 30% in worst case in line with the ECL policy.

Refer below the movement/ transfer between stages during the year 2025.

	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.
Balance as at 1 st January 2025	232,665,275	318,666	221,910,366	454,894,307
Charge / (Write back) to Profit or Loss Statement	(84,331,116)	(206,633)	(10,180,037)	(94,717,787)
Foreign Exchange Gains	181,517	-	14,280,016	14,461,534
Balance as at 31 st December 2025	<u>148,515,676</u>	<u>112,033</u>	<u>226,010,345</u>	<u>374,638,054</u>

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

AS AT 31ST DECEMBER,

39 Risk Management (Continued)

39.3 Credit Risk (Continued)

39.3.4 Credit Risk Exposure

The total gross loans and receivables from all credit customers of the Bank stood at Rs. 4,705 Mn as at 31st December 2025 (2024 - Rs. 4,415 Mn) . Please refer Note 9 for the product wise loans and advances.

Significant Increase in Credit Risk Impact on ECL

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forwardlooking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- The remaining lifetime probability of default (PD) as at the reporting date; with
- The remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where appropriate for changes in prepayment expectations).

The Bank considers an exposure to have significant increase in credit risk (SICR) when the contractual payment of a customer are more than 30 days past due in accordance with rebuttable presumption in SLFRS 9, or other qualitative indicators reveal that there had been SICR.

Incorporation of Forward Looking Information

The Bank incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The key drivers for credit risk are GDP growth, unemployment rates, inflation, exchange rates and interest rates. The bank estimates each key drive for credit risk over the active forecast period of five years.

During 2025, the Bank reviewed the forecasts of macro-economic indicators and the weightages assigned for base case (65%), best case (5%) and worst-case (30%) scenarios when assessing the probability weighted forward looking macro-economic indicators in line with the latest available information. Accordingly the Bank has used GDP growth as the quantitative factor. Forecasts of such quantitative economic factors may be derived based on economic data and forecasts published by International Monetary Fund. During 2024, the Bank has used GDP growth rate of 3.73% for the ECL.

The following table provides an explanation of how significant changes in the gross carrying amount of financials instruments during the period contributed to changes in loss allowances.

	2025		
	Stage 1	Stage 2	Stage 3
Loans and Advances to Customers at Ammotized Cost			
Stage 1 - Due to reversal of management overlay in 2025 81,229,299/= . Some NPL loans has reovered duing 2025 and GBP/LKR exchange rate depreciated during 2025 (367.3822 - 417.3145)	(84,149,599)	(206,633)	4,099,979
Debt Investment Securities at Amortized Cost			
No change in impairment for Debt Investment Securities at Amortized Cost During	-	-	-
Loan Commitments and Financial Guarntee Contracts			
No change in impairment for unfunded facilities During 2025	-	-	-
	2024		
	Stage 1	Stage 2	Stage 3
Loan and Advances to Customers at Ammotized Cost			
Due to Granting of Term loans and OD facilities duing 2024 Loans and advances Increased by Rs.574,935,188/-. Stage 2 loan classified to Stage 1 loans and some NPL loans has reovered duing 2024.	113,978,946	(43,573,581)	(18,341,544)
Debt Investment Securities at Amortized Cost			
Due to Maturity in Trust Certificates 200 Mn During 2024	(1,180,451)	-	-
Loan Commitments and Financial Guarantee Contracts			
Due to Increase in Trade Business During the Year, which Financial Guarantees have Increased by Rs. 1,130,148,335/-	12,807,276	-	-

HABIB BANK LIMITED - SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31ST DECEMBER,

39 Risk Management (Continued)

38.3 Credit Risk (Continued)

39.3.4 Credit Risk Exposure (Continued)

39.3.4.1 Commitments and Contingencies

The Bank has issued no loans commitments that are measured at FVTPL, liabilities arising from financial guarantees and loan commitments are included within provisions ;

	2025 Rs.	2024 Rs.
Undrawn Commitments	3,519,657,152	2,206,865,949
Guarantees	5,760,053,990	3,563,365,737
Derivative Financial Instruments	1,396,760,565	951,310,634
Letter of Credits	157,983,952	260,872,039
Acceptances	19,686,052	36,640,014
	<u>10,854,141,711</u>	<u>7,019,054,373</u>

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.

39.3.4.2 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 economic conditions.

As at 31 December 2025	Agriculture and fisheries	Financial Services	Government	Manufacturing	Construction and housing	Traders	Other	Total
Cash and Cash Equivalents	-	2,239,836,393	-	-	-	-	-	2,239,836,393
Balances with Central Bank of Sri Lanka	-	-	91,027,646	-	-	-	-	91,027,646
Placements with Financial Institutions	-	1,818,010,219	-	-	-	-	-	1,818,010,219
Financial Assets at Amortized Cost	-	-	978,291,484	-	-	-	-	978,291,484
Financial Assets measured at FVTOCI	-	-	9,055,023,036	-	-	-	-	9,055,023,036
Total other Financial Assets	-	4,057,846,612	10,124,342,166	-	-	-	-	14,182,188,778
Loans and Advances to Customers								
Term Loans	-	962,620,639	-	-	-	-	96,433,303	1,059,053,942
Overdraft	-	-	-	2,131,218,171	-	3,591,854	363,842,761	2,498,652,786
Short Term Loans	159,957,538	380,611,233	-	-	-	-	-	540,568,771
Trade Finance Loans	-	467,159,050	-	-	-	22,799,991	-	489,959,041
Staff Loans	-	-	-	-	52,816,690	-	63,733,360	116,550,050
Gross Loans and Advances	159,957,538	1,810,390,922	-	2,131,218,171	52,816,690	26,391,845	524,009,424	4,704,784,590
Allowance for Impairment Losses	(30,112)	(144,461,320)	-	(122,853,177)	(750,566)	(26,391,845)	(80,151,035)	(374,638,054)
Net Loans and Advances	159,927,426	1,665,929,602	-	2,008,364,994	52,066,125	(0)	443,858,389	4,330,146,536
Total	159,927,426	5,723,776,214	10,124,342,166	2,008,364,994	52,066,125	(0)	443,858,389	18,512,335,314

HABIB BANK LIMITED - SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31ST DECEMBER,

39 Risk Management (Continued)

39.3 Credit Risk (Continued)

39.3.4 Credit Risk Exposure (Continued)

39.3.4.2 Analysis of Risk Concentration (Continued)

As at 31 December 2024	Agriculture and Fisheries	Financial Services	Government	Manufacturing	Construction and Housing	Traders	Other	Total
Cash and Cash Equivalents	-	2,263,534,896	-	-	-	-	-	2,263,534,896
Balances with Central Bank of Sri Lanka	-	-	161,108,346	-	-	-	-	161,108,346
Placements with Financial Institutions	-	1,384,322,014	-	-	-	-	-	1,384,322,014
Derivative Financial Instruments	-	-	-	-	-	-	-	-
Financial Assets at Amortized Cost	-	-	4,792,420,172	-	-	-	-	4,792,420,172
Financial Assets measured at FVOCI	-	-	9,883,239,003	-	-	-	-	9,883,239,003
Total Other Financial Assets	-	3,647,856,910	14,836,767,521	-	-	-	-	18,484,624,431
Loans and Advances to Customers								
Term Loans	-	882,859,349	-	-	-	-	403,756,679	1,286,616,029
Overdraft	-	-	-	1,577,858,897	1,025,400	307,118,110	538,942,768	2,424,945,175
Short Term Loans	93,821,713	-	-	-	-	3,591,853	-	97,413,566
Trade Finance Loans	-	473,061,372	-	-	-	26,899,991	-	499,961,363
Staff Loans	-	-	-	-	52,312,363	-	54,063,455	106,375,818
Gross Loans and Advances	93,821,713	1,355,920,721	-	1,577,858,897	53,337,763	337,609,954	996,762,902	4,415,311,951
Allowance for Impairment Losses	(3,591,854)	(222,541,634)	-	(105,504,652)	(1,066,524)	(101,776,612)	(20,413,030)	(454,894,306)
Net Loans and Advances	90,229,859	1,133,379,087	-	1,472,354,245	52,271,239	235,833,342	976,349,872	3,960,417,645
Total	90,229,859	4,781,235,997	14,836,767,521	1,472,354,245	52,271,239	235,833,342	976,349,872	22,445,042,075

HABIB BANK LIMITED - SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31ST DECEMBER,

39 Risk Management (Continued)

39.3 Credit Risk (Continued)

39.3.4 Credit Risk Exposure (Continued)

39.3.4.3 Credit Quality Analysis

Credit Quality of Financial Assets

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

As at 31st December 2025	2025 Total	Past Due but not Individually Impaired	Individually Impaired	Neither Past Due nor Impaired
Cash and Cash Equivalents	2,239,847,063	-	(10,670)	2,239,836,393
Balances with Central Bank of Sri Lanka	91,027,646	-	-	91,027,646
Placements with Financial Institutions	1,838,098,415	-	(20,088,196)	1,818,010,219
Financial Assets at Amortized Cost				
- Gross Loans and Advances to Customers				
Term Loans	1,059,053,943	-	-	1,059,053,943
Overdraft	2,498,652,786	-	(199,618,501)	2,299,034,285
Short Term Loans	540,568,771	-	(3,591,854)	536,976,917
Trade Finance Loans	489,959,041	-	(22,799,991)	467,159,050
Staff Loans	116,550,051	-	-	116,550,051
- Debt and Other Instruments	978,291,484	-	-	978,291,484
Total	9,852,049,200	-	(246,109,212)	9,605,939,988
<hr/>				
As at 31st December 2024	Neither Past Due nor Impaired	Past Due but not Individually Impaired	Individually Impaired	2023 Total
Cash and Cash Equivalents	2,263,546,279	-	(11,383)	2,263,534,896
Balances with Central Bank of Sri Lanka	161,108,346	-	-	161,108,346
Placements with Financial Institutions	1,401,101,048	-	(16,779,034)	1,384,322,014
Financial Assets at Amortized Cost				
Term Loans	1,286,616,029	-	-	1,286,616,029
Overdraft	2,424,945,175	-	(191,418,522)	2,233,526,653
Short Term Loans	97,413,566	-	(3,591,854)	93,821,712
Trade Finance Loans	499,961,363	-	(26,899,991)	473,061,371
Staff Loans	106,375,818	-	-	106,375,818
- Debt and Other Instruments	4,792,420,172	-	-	4,792,420,172
Total	13,033,487,796	-	(238,700,784)	12,794,787,012

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 (CONTINUED)

AS AT 31ST DECEMBER,

39 Risk Management (Continued)

39.3 Credit Risk (Continued)

39.3.4 Credit Risk Exposure (Continued)

39.3.4.3 Credit Quality Analysis (Continued)

Maximum Exposure to Credit Risk by Risk Rating (SLFRS 09)

Bank's financial instruments portfolio is divided into Funded, Unfunded, Investments & Placements. These categories are further sub categorized 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 - 31.12.2025	Amount	Subject to 12 Month ECL (Stage 1)	Subject to Lifetime ECL (Stage 2)	Subject to Lifetime ECL (Stage 3)
Rating 1-3: Investment Grade	11,851,324,738	11,851,324,738	-	-
Rating 4-7: Moderate Risk	-	-	-	-
Rating 8-9A: High Risk	-	-	-	-
Rating 10-12: Extreme Risk	-	-	-	-
	11,851,324,738	11,851,324,738	-	-

Loans and Advances to Customers - 31.12.2025	Amount	Subject to 12 Month ECL (Stage 1)	Subject to Lifetime ECL (Stage 2)	Subject to Lifetime ECL (Stage 3)
Rating 1-3: Investment GGrade	2,054,560,060	2,054,560,060	-	-
Rating 4-7: Moderate Risk	2,424,214,185	2,393,975,639	30,238,547	-
Rating 8-9A: High Risk	-	-	-	-
Rating 10-12: Extreme Risk	226,010,346	-	-	226,010,346
	4,704,784,591	4,448,535,699	30,238,547	226,010,346

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

- Internal ratings 8 to 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 economic downturn and restructuring based on the available information.

<u>Entity</u>	<u>Financial Asset</u>	<u>Credit Ratings</u>
Sri Lanka Government	Treasury Bills & Bonds	CCC+
LB Finance	Loans and advances	A- (lka)
Singer Finance	Loans and advances	BBB+ (lka)
Bank of Ceylon	Cash and Cash Equivalents	AA-(lka)

AS AT 31ST DECEMBER,

39 Risk Management (Continued)

39.3 Credit Risk (Continued)

39.3.4 Credit Risk Exposure (Continued)

39.3.4.3 Credit Quality Analysis (Continued)

Aging of Past Due but not Individually Impaired Financial Assets

Bank does not rebut the 30 DPD presumption as a key SICR criterion. Thus any financial instrument which is more than 30 DPD is classified as Stage 2. As of 31.12.2025 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 2025	Less than 3 Months	3 to 6 Months	6 to 12 Months	More than 12 Months
Term Loans	-	-	-	-
Overdraft	-	-	-	199,618,501
Short Term Loans	-	-	-	3,591,854
Trade Finance Loans	-	-	-	22,799,991
Total	-	-	-	226,010,346

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.

AS AT 31ST DECEMBER,

39 Risk Management (Continued)

39.3 Credit Risk (Continued)

39.3.4 Credit Risk Exposure (Continued)

39.3.4.3 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.

Type of Credit Exposure	Exposure that is Subject to Collateral Requirements						Principle Type of Collateral Held
	31st December 2025			31st December 2024			
	Exposure	Net Collateral	As a %	Exposure	Net Collateral	As a %	
	Rs.	Rs.		Rs.	Rs.		
Cash and Cash Equivalents							
Cash in Hand - Local Currency	260,891,075	-	0%	243,093,583	-	0%	None
Cash in Hand - Foreign Currency (United States Dollar)	3,106,857	-	0%	6,442,055	-	0%	None
Balances with Banks	1,975,849,131	-	0%	2,014,010,641	-	0%	None
Balances with Central Bank of Sri Lanka	91,027,646	-	0%	161,108,346	-	0%	None
Placements with Financial Institutions	1,838,098,415	-	0%	1,401,101,048	-	0%	None
Loans and Advances to Customers							
Term Loans	1,059,053,943	965,870,639	91%	1,286,616,029	897,166,667	70%	PMP/LEASE
Overdrafts	2,498,652,786	2,498,652,786	100%	2,424,945,175	2,428,537,029	100%	LOD/PMP/FCD/ HST
Short Term Loans	540,568,771	540,568,771	100%	97,413,566	93,626,656	96%	LEASE/FCD
Trade Finance Loans	489,959,041	-	0%	499,961,363	-	0%	HST
Staff Loans	116,550,051	116,550,051	100%	106,375,818	106,375,818	100%	LOD/PMP/Vehicle
Debt and other instruments							
Investment in Government Securities	978,291,484	-	0%	4,792,420,172	-	0%	None
Financial Assets measured at FVOCI	9,015,431,953	-	0%	9,883,239,003	-	0%	None
Contingent Liabilities							None
- guarantees and letters of credits	5,937,723,994	-	0%	3,860,877,790	-	0%	None

* PMP - Mortgage over property, GTE - Against Guarantee, HST - Mortgage over stocks, LOD - Lien Over Local deposit, FCD - Lien Over Foreign deposit

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 recognized a loss allowance for financial instruments which are fully secured against cash collaterals.

39.4 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 HBL SL comprises of,

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

AS AT 31ST DECEMBER,

39 Risk Management (Continued)

39.4 Market Risk (Continued)

Market Risk Strategy / Policies and Scope

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

The Bank only deals in products which are manageable and the risks within which are understandable. The Bank has restrained itself from entering into transactions that are unmanageable due to lack of systems, accounting, data capturing, lack of market depth and product liquidity, personnel skills or other risks / limitations existing within the organization, local or international markets. Exceptions to this can be accommodated if the product can be managed but would require specific recommendation of Local ALCO and approval of Market and Liquidity 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 analyze 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 Global Market Risk Policy and Market Risk Procedure Manual of HBL SL by taking into consideration the size of the Bank, its nature of activities, domestic-international mix, personnel / other resources, system capabilities and regulatory requirements. It is responsible for oversight of the asset liability management (ALM) function at HBL Sri Lanka in line with the policy parameters included in Market Risk Policy, the overall Global Market Risk Policy of HBL, Head office, Pakistan as well as instructions of Global ALCO issued from time to time.

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

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

HABIB BANK LIMITED - SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31ST DECEMBER,

39 Risk Management (Continued)

39.4 Market Risk (Continued)

39.4.1 Interest Rate Risk

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

Interest Rate Risk in the Banking Book

This is the bank's structural position and is generally held for a longer tenor. Interest rate risk exposures on Banking Book arises on account of mismatches in maturity or re-pricing of assets and liabilities. The Banking book includes all Rate Sensitive Assets (RSA) and Rate Sensitive Liabilities (RSL) not categorized under the trading book. Rate Sensitive Assets and Liabilities can be defined as balance sheet items the values of which are sensitive to interest rate movements. Hence, their values can be affected favorably 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 39.4.1

Interest Rate Sensitivity Gap Analysis as at 31st December 2025

	Total Rs.	< 1 Month	1- 3 Months	3-6 Months	6 Months - 1 Year	1 Year - 2 Years	2 Years - 3 Years	3 Years - 5 Years	5 Years - 10 Years	Over 10 Years	Not exposed to interest rate risk
Financial Assets											
Cash and Cash Equivalents	2,239,836,393	-	-	-	-	-	-	-	-	-	2,239,836,393
Balances with Central Bank of Sri Lanka	91,027,646	-	-	-	-	-	-	-	-	-	91,027,646
Placements with Financial Institutions	1,818,010,219	1,095,542,001	411,234,109	-	311,234,109	-	-	-	-	-	(0.30)
Financial Assets at Amortized Cost	978,291,484	-	-	-	-	978,291,484	-	-	-	-	-
Financial Assets Measured at FVOCI	9,055,023,036	198,864,940	2,088,691,399	3,215,949,968	2,971,361,949	434,584,086	105,979,610	-	39,591,083	-	-
Gross Loans and Advances to Customers	4,330,146,538	2,871,593,732	349,719,472	232,666,667	334,500,000	416,666,667	125,000,000	-	-	-	-
	18,512,335,315	4,166,000,673	2,849,644,980	3,448,616,635	3,617,096,058	1,829,542,237	230,979,610	-	39,591,083	-	2,330,864,039
Financial Liabilities											
Due to Banks	531,245	-	-	-	-	-	-	-	-	-	531,245
Due to Customers	11,016,775,001	3,139,518,364	2,965,744,605	2,284,877,016	538,779,982	-	-	-	-	-	2,087,855,034
Other Borrowings	-	-	-	-	-	-	-	-	-	-	-
	11,017,306,246	3,139,518,364	2,965,744,605	2,284,877,016	538,779,982	-	-	-	-	-	2,088,386,279
Total Interest Rate Sensitivity Gap	7,495,029,069	1,026,482,309	(116,099,625)	1,163,739,619	3,078,316,076	1,829,542,237	230,979,610	-	39,591,083	-	242,477,759

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%	(72,330,113)
-1%	73,969,208

HABIB BANK LIMITED - SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31ST DECEMBER,

39 Risk Management (Continued)

39.4 Market Risk (Continued)

39.4.1 Interest Rate Risk (Continued)

Interest Rate Sensitivity Gap Analysis as at 31 December 2024

	Total Rs.	< 1 Month	1- 3 Months	3-6 Months	6 Months - 1 Year	1 Year - 2 Years	2 Years - 3 Years	3 Years - 5 Years	5 Years - 10 Years	Over 10 Years	Not Exposed to Interest Rate Risk
Financial Assets											
Cash and Cash Equivalents	2,263,534,896	-	-	-	-	-	-	-	-	-	2,263,534,896
Balances with Central Bank of Sri Lanka	161,108,346	-	-	-	-	-	-	-	-	-	161,108,346
Placements with Financial Institutions	1,384,322,014	1,384,322,014	-	-	-	-	-	-	-	-	-
Financial Assets at Amortized Cost	4,792,420,172	-	912,731,037	261,717,553	2,676,581,960	-	941,389,623	-	-	-	-
Financial Assets measured at FVOCI	9,918,838,258	268,842,013	3,712,418,823	2,765,231,053	2,902,568,080	234,179,033	-	-	35,599,256	-	-
Gross Loans and Advances to Customers	3,960,417,644	1,880,606,216	588,176,519	284,833,789	299,654,102	356,584,882	259,146,360	9,026,360	8,311,325	274,078,091	-
	22,480,641,330	3,533,770,243	5,213,326,379	3,311,782,395	5,878,804,142	590,763,915	1,200,535,983	9,026,360	43,910,581	274,078,091	2,424,643,242
Financial Liabilities											
Due to Banks	1,301,610	-	-	-	-	-	-	-	-	-	1,301,610
Due to Customers	12,384,732,305	661,574,816	2,797,287,181	3,223,835,202	644,978,564	-	-	-	-	-	5,057,056,541
Other Borrowings	1,888,344,864	1,888,344,864	-	-	-	-	-	-	-	-	-
	14,274,378,779	2,549,919,680	2,797,287,181	3,223,835,202	644,978,564	-	-	-	-	-	5,058,358,151
Total Interest Rate Sensitivity Gap	8,206,262,551	983,850,563	2,416,039,198	87,947,193	5,233,825,578	590,763,915	1,200,535,983	9,026,360	43,910,581	274,078,091	(2,633,714,910)

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%	(129,919,466)
-1%	136,699,766

HABIB BANK LIMITED - SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31ST DECEMBER,

39 Risk Management (Continued)

39.5 Liquidity Risk (Continued)

39.5.2 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 31st December 2024. Balances due within 12 months are equal to their carrying value as the impact of discounting is not significant.

As at 31 December 2025	Carrying Value Rs.	On Demand (less than 15 Days) Rs.	15 Days to 3 Months Rs.	3 Months to 12 Months Rs.	Over 1 Year Rs.	Total 2024 Rs.
Assets						
Cash and Cash Equivalents	2,239,836,393	2,239,836,393	-	-	-	2,239,836,393
Balances with Central Bank of Sri Lanka	91,027,646	91,027,646	-	-	-	91,027,646
Placements with Financial Institutions	1,818,010,219	600,000,000	823,493,817	394,516,402	-	1,818,010,219
Financial Assets at Amortized Cost	978,291,484	-	-	-	978,291,484	978,291,484
Financial Assets measured at FVOCI	9,055,023,036	-	2,287,556,339	6,187,311,917	580,154,780	9,055,023,036
Loans and Advances to Customers	4,330,146,538	2,295,439,381	925,873,823	567,166,667	541,666,666	4,330,146,537
Total Financial Assets	18,512,335,315	5,226,303,420	4,036,923,978	7,148,994,986	2,100,112,930	18,512,335,314
Liabilities						
Due to Banks	531,245	531,245	-	-	-	531,245
Due to Customers	11,016,775,001	3,915,460,466	4,277,657,535	2,823,656,998	-	11,016,774,999
Other Borrowings	-	-	-	-	-	-
Lease Liabilities	31,890,540	-	-	15,968,766	15,921,774	31,890,540
Total Financial Liabilities	11,049,196,786	3,915,991,711	4,277,657,535	2,839,625,764	15,921,774	11,049,196,784
As at 31 December 2024	Carrying Value Rs.	On Demand (less than 15 Days) Rs.	15 Days to 3 Months Rs.	3 Months to 12 Months Rs.	Over 1 Year Rs.	Total 2023 Rs.
Assets						
Cash and Cash Equivalents	2,263,534,896	2,263,534,896	-	-	-	2,263,534,896
Balances with Central Bank of Sri Lanka	161,108,346	161,108,346	-	-	-	161,108,346
Placements with Financial Institutions	1,384,322,014	-	989,805,612	394,516,402	-	1,384,322,014
Financial Assets at Amortized Cost	4,792,420,172	-	912,731,037	2,938,299,512	941,389,623	4,792,420,172
Financial Assets measured at FVOCI	9,918,838,258	268,842,013	3,712,418,823	5,667,799,133	269,778,289	9,918,838,258
Loans and Advances to Customers	3,960,417,644	2,228,023,232	327,111,289	584,487,891	820,795,232	3,960,417,644
Total Financial Assets	22,480,641,330	4,921,508,487	5,942,066,762	9,585,102,938	2,031,963,144	22,480,641,330
Liabilities						
Due to Banks	1,301,610	1,301,610	-	-	-	1,301,610
Due to Customers	12,384,732,305	5,057,056,541	3,458,861,997	3,868,813,766	-	12,384,732,305
Other Borrowings	1,888,344,864	1,888,344,864	-	-	-	1,888,344,864
Lease Liabilities	21,997,596	-	-	9,640,885	12,356,712	21,997,596
Total Financial Liabilities	14,296,376,376	6,946,703,015	3,458,861,997	3,878,454,652	12,356,712	14,296,376,376

AS AT 31ST DECEMBER,

39 Risk Management (Continued)

39.4 Market Risk (Continued)

39.4.2 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.

	2025	2024
Net Open Position (USD)	48,581	124,190

Please refer Note 9.2 foreign currency advances and Note 16.2 foreign currency deposits balance as at 31st December 2025.

The following table indicates the Bank's exchange rate risk exposure based on its size of the NOP/unhedged positions in the foreign currency assets/liabilities. By 31st December 2025, Bank carried a USD equivalent NOP/ Unhedged "Overbrought" position of LKR 36.34 Bn. The impact of exchange rate risk given below ;

As at 31st December	2025	2024
Net Exposure - USD Equivalent	48,581	124,190
Value of Position in LKR	15,059,838	36,335,920
Exchange Rate (USD/LKR) as at 31st December	309.99	292.58
Possible Potential Loss to Bank		
- If Exchange Rate (USD/LKR) Depreciates by 1% - LKR	150,598	363,359
- If Exchange Rate Depreciates by 10% - LKR	1,505,984	3,633,592
- If Exchange Rate Depreciates by 20% - LKR	3,011,968	7,267,184

39.5 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.

39.5.1 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 'Global 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 39.5.2 for maturity analysis of assets and liabilities as at 31st December 2025.

Bank maintains a minimum 100% of Liquidity Coverage Ratio.

AS AT 31ST DECEMBER,

39 Risk Management (Continued)

39.5 Liquidity Risk (Continued)

39.5.3 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 HBL SL) and the general crisis of the market (systemic risk). It sets out various measures in advance to deal with those situations.

39.6 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

HBL SL'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 HBL SL is governed by the ORM Framework approved by HBL Head Office Pakistan for HBL SL.

ORM Risk Structure

The key players involved in ORM at HBL SL 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 HBL SL
- Country Manager or Regional General Manager
- Country Risk Manager
- Operational Risk Manager
- Business and Support Functions at HBL SL

ORM Mitigation, Monitoring and Reporting

The ORM Mitigation tools used by HBL SL 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 Operational Risk at Head Office Pakistan & Regional Risk Manager. Loss Data is reported to CBSL on quarterly basis and to Head Office on monthly basis.

Defined Key Risk Indicators (KRI) and Fraud related information are reported to Head Office on monthly basis.

Business Continuity Management

Business Continuity Management (BCM) is a comprehensive approach to ensure that an HBL SL's business continuity is maintained during any disruptive event. The key components of BCM include Risk Assessment, Business Impact Analysis (BIA), Strategy Development to mitigate risks and ensure the continuity of critical functions, Plan Development to resume business operations, and Training and Testing to ensure that employees are prepared and the plans are effective. Additionally, BCM involves continuously reviewing and updating the plans to adapt to new threats and changes within the organization.

Use of Insurance for the Purpose of Mitigating Operational Risk

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

Outsourced Activities

HBL SL 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 HBL SL.

AS AT 31ST DECEMBER,

39 Risk Management (Continued)

39.6 Operational Risk Management (ORM) (Continued)

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

All Operational risk loss data is being reported in a System.

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

40 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 22 for the Assigned Capital.

41 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.

41.1 Other Contingent Liabilities

41.1.1 Litigation against the Bank

Due to the nature of the business, litigation is a common aspect of the banking industry. The bank has its procedures set out for managing all legal actions which are instituted by the Bank as well as against the Bank. Ongoing legal actions are reviewed periodically. 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.

Pursuant to obtaining professional advice and estimating any loss likely to be incurred by the Bank if any, adjustments are made to the accounts of the Bank in order to accommodate any adverse effects that such claims may have on its financial standing.

The following case instituted against the Bank;

Suit No. CN/CAM/12/54

The Plaintiff instituted this action against the Bank challenging the Bank's decision not to renew his contract of employment. Plaintiff is seeking (1) Reinstatement with Back Wages or in the alternative (2) Substantial amount of Compensation for termination of services and loss of career. The Commissioner of Labour had given a direction to the Bank to pay the balance amount after setting off the amount lying in favor of Plaintiff in EPF in Karacchi. The Bank has recognized a total provision of Rs. 4,850,163/- as of 31st December 2025 in respect of the above mentioned legal case; "Abid Shervani vs Habib Bank Limited" filed by ex employee for reinstatement with Back wages or "Substantial Compensation" for termination of employment and loss of career. However, the Bank is yet to receive instructions for making the payment.

41.1.2 Other than those disclosed above, there are no cases filed against the Bank which would have a material impact on the financial position of the Bank.

42 Events after the Reporting Date

No material events have taken place since 31st December 2025 require disclosure or/and adjustments in these Financial Statements.

Selected Performance Indicators / Key Financial Data

Ratio	31-Dec-25	31-Dec-24
Regulatory Capital Adequacy (LKR '000)		
Common Equity Tier 1	6,673,196	7,369,086
Tier 1 Capital	7,352,563	7,996,554
Total Regulatory Capital	6,915,645	7,692,480
Regulatory Capital Ratios (%)		
Common Equity Tier 1 Capital Ratio <i>(Minimum Requirement-7%)</i>	65.60%	76.20%
Tier 1 Capital Ratio <i>(Minimum Requirement - 8.5%)</i>	65.60%	76.20%
Total Capital Ratio <i>(Minimum Requirement - 12.5%)</i>	67.98%	79.55%
Basel III Leverage Ratio <i>(Minimum Requirement - 3%)</i>	29%	28%
Regulatory Liquidity Requirement		
Liquidity Coverage Ratio (%) – <i>(Minimum Requirement -100%)</i>		
- Rupee	766%	552%
- All Currency	308%	311%
Net Stable Funding Ratio <i>(Minimum Requirement - 100%)</i>	278%	301%
Statutory Liquid Assets Ratio <i>(Minimum Requirement -20%)</i>		
Statutory Liquid Assets - DBU (LKR'000)	N/A	N/A
Statutory Liquid Assets - FCBU (USD'000)	N/A	N/A
Domestic Banking Unit (%)	N/A	N/A
Off-Shore Banking Unit (%)	N/A	N/A
Assets Quality		
Impaired Loans (Stage 3) to Total Loans, Ratio (%)	4.80%	5.03%
Stage 3 Impairment to Stage 3 Loans (%)	100%	100%
Stage 3 Loans (net of Stage 3 impairment) to Total Loans (%)	0%	0%
Income & Profitability		
Net Interest Margin (%)	4.99%	6.04%
Return on Assets (Before Tax) (%)	2.86%	3.12%
Return on Equity (%)	4.68%	4.69%
Cost to Income Ratio (%)	45.39%	35.58%
Memorandum Information		
Credit Rating - Fitch	AA (lka)	AA- (lka)
Number of Employees	61	57
Number of Branches	3	3

*SLAR Returns are discontinued during the year 2024.

NSFR Disclosure	31-Dec-25	31-Dec-24
LKR 000		
Total Available Stable Funding	14,033,109	15,306,174
Required Stable Funding – On Balance Sheet Assets	4,506,473	4,739,169
Required Stable Funding – Off Balance Sheet Items	542,707	350,953
Total Required Stable Funding	5,049,180	5,090,122
NSFR	278%	301%

Basel III Computation of Capital Ratios

Item	Period 31.12.2025	Period 31.12.2024
Common Equity Tier 1 (CET1) Capital after Adjustments	6,673,196	7,369,086
Common Equity Tier 1 (CET1) Capital	7,352,563	7,996,554
Equity Capital (Stated Capital) / Assigned Capital	4,938,390	4,938,390
Reserve Fund	184,030	166,230
Published Retained Earnings/(Accumulated Retained Losses)	2,160,487	2,798,631
Published Accumulated Other Comprehensive Income (OCI)	69,656	93,303
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	679,367	627,467
Goodwill (net)	-	-
Intangible Assets (net)	-	-
Deferred Tax Assets (net)	-	-
Amount due to Head Office & Branches Outside Sri Lanka in Sri Lanka Rupees	(229)	(125)
Amount due from Head Office & Branches Outside Sri Lanka in Foreign Currency (net)	679,595	627,592
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	-	-
Bank and held by Third Parties	-	-
Total Adjustments to AT1 Capital	-	-
Investment in Own Shares	-	-
Others (specify)	-	-
Tier 2 Capital after Adjustments	242,449	323,393
Tier 2 Capital	242,449	323,393
Qualifying Tier 2 Capital Instruments	-	-
Revaluation Gains	48,311	48,311
Loan Loss Provisions	194,137	275,082
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	6,673,196	7,369,086
Total Tier 1 Capital	7,352,563	7,996,554
Total Capital	6,915,645	7,692,480