HABIB BANK LIMITED
SRI LANKA BRANCH
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31st DECEMBER 2022

KPMG
(Chartered Accountants)
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INDEPENDENT AUDITORS' 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 Branch"), which comprise the statement of financial position as at 31st December 2022, and the statement of profit or 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 a summary of significant accounting policies set out on pages 8 to 55.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Branch as at 31st December 2022, 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 Branch in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics) and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. 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 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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INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Branch's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Branch's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Branch to cease to continue as a going concern.

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INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

- 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.

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CHARTERED ACCOUNTANTS

Colombo, Sri Lanka
28th April 2023

HABIB BANK LIMITED - SRI LANKA BRANCH
STATEMENT OF FINANCIAL POSITION

AS AT 31ST DECEMBER,	Note	2022 Rs.	2021 Rs.
Assets			
Cash and Cash Equivalents	4	**2,706,589,911**	437,135,965
Balances with Central Bank of Sri Lanka	5	**110,918,346**	111,707,246
Placements with Financial Institutions	6	**2,121,871,689**	1,203,927,042
Derivative Financial Instruments	7	**12,083,456**	-
Financial Assets at Amortized Cost			
- Loans and Advances to Customers	8	**5,069,999,634**	2,445,131,093
- Debt and Other Instruments	9	**3,168,144,983**	3,192,294,401
Financial Assets measured at Fair value through Other Comprehensive Income	10	**4,154,908,262**	5,915,385,869
Other Assets	11	**176,531,336**	88,516,690
Property, Plant and Equipment	12	**285,679,762**	280,802,520
Right of Use (ROU) Asset	13	**23,681,612**	37,539,193
Total Assets		**17,830,408,991**	13,712,440,019
Liabilities			
Due to Banks	14	**6,987,742**	142,333,613
Derivative Financial Instruments	7	-	22,703,767
Financial Liabilities at Amortized Cost -Due to Customers	15	**10,234,860,414**	5,670,667,845
Financial Liabilities measured at Amortized Cost - Other Borrowings	16	-	1,103,202,948
Current Tax Liabilities	17	**244,411,812**	42,346,534
Other Liabilities	18	**116,388,741**	62,662,178
Retirement Benefit Obligation	19	**41,312,402**	43,969,425
Deferred Tax Liabilities	20	**21,830,490**	58,147,875
Lease Liability	13.1	**19,504,289**	32,992,498
Total Liabilities		**10,685,295,890**	7,179,026,683
Equity			
Assigned Capital	21	**4,938,390,142**	4,938,390,142
Statutory Reserve Fund	22	**115,929,356**	85,225,788
Revaluation Reserve	23	**199,089,723**	211,451,713
Exchange Equalization of Reserve	24	**32,853,912**	10,706,699
Other Comprehensive Income Reserve		**6,930,553**	21,933,759
Retained Earnings	25	**1,851,919,415**	1,265,705,235
Total Equity		**7,145,113,101**	6,533,413,336
Total Liabilities and Equity		**17,830,408,991**	13,712,440,019
Contingent Liabilities and Commitments	38.3.4.1	**7,634,794,066**	7,677,971,909

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

Signed for and on behalf of the management by:

.....
Wajid Ali Shah
Regional General Manager
Sri Lanka and Maldives

.....
Fathima Zahara Mohamed
Head of Finance

The financial statements are to be read in conjunction with the related notes, which form a part of the financial statements of the Company set out on pages 8 to 55.

30th-March-2023
Colombo

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

FOR THE YEAR ENDED 31ST DECEMBER,	**Note**	**2022 Rs.**	2021 Rs.
Interest Income	26	**1,579,271,556**	748,783,547
Interest Expense	27	**(341,873,513)**	(164,872,160)
Net Interest Income		**1,237,398,043**	583,911,387
Fees and Commission Income	28	**79,256,858**	14,207,464
Other Operating Income	29	**541,339,672**	122,872,514
Total Operating Income		**1,857,994,573**	720,991,365
Impairment Charges and Other Losses	30	**(111,250,435)**	26,490,726
Net Operating Income		**1,746,744,138**	747,482,091
Personnel Expenses	31	**(294,918,620)**	(248,519,274)
Depreciation of Property Plant and Equipment and ROU Assets	12/13	**(24,193,229)**	(25,252,009)
Other Operating Expenses	32	**(164,257,674)**	(101,474,353)
Total Operating Expenses		**(483,369,523)**	(375,245,636)
Operating Profit before Taxes and levies on Financial Services		**1,263,374,615**	372,236,455
Taxes and Levies on Financial Services	33.1	**(260,028,535)**	(77,575,000)
Profit before Tax		**1,003,346,080**	294,661,455
Income Tax Expense	33.2	**(389,274,710)**	(102,701,468)
Profit for the Year		**614,071,370**	191,959,987
Other Comprehensive Income			
Items that are or may be reclassified subsequently to profit or loss			
Net Gain on Debt Instruments at Fair Value through OCI		**(30,975,485)**	4,166,934
Tax expense relating to items that may be reclassified to profit or loss	33.2	**15,972,279**	(12,333)
Items that will not be reclassified to profit or loss			
Actuarial Gain on Retirement Benefit Obligation	19	**4,066,254**	6,937,330
Exchange differences on Translations of foreign Currency Reserves	24	**22,147,213**	1,909,486
Tax expense relating to items that will not be reclassified to profit or loss	33.2	**(13,581,867)**	8,932,850
Other Comprehensive Income for the Year, net of tax		**(2,371,606)**	21,934,267
Total Comprehensive Income for the Year		**611,699,764**	213,894,254

Figures in brackets indicate deductions.

The financial statements are to be read in conjunction with the related notes, which form a part of the financial statements of the Company set out on pages 8 to 55.

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	OCI Reserve	Retained Earnings	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
As at 1st January 2021	4,938,390,142	75,627,789	200,853,903	8,797,215	17,779,158	1,078,070,876	6,319,519,084
Profit for the year	-	-	-	-	-	191,959,987	191,959,987
Other Comprehensive Income	-	-	-	1,909,486	4,166,934	6,937,330	13,013,750
Deferred Tax recognized in OCI (Note 33.2)	-	-	10,597,809	-	(12,333)	(1,664,959)	8,920,517
Transfer to Statutory Reserve Fund (Note 22)	-	9,597,999	-	-	-	(9,597,999)	-
As at 31st December 2021	4,938,390,142	85,225,788	211,451,713	10,706,699	21,933,759	1,265,705,235	6,533,413,336
Profit for the Year	-	-	-	-	-	**614,071,370**	**614,071,370**
Other Comprehensive Income	-	-	-	**22,147,213**	**(30,975,485)**	**4,066,254**	**(4,762,018)**
Deferred Tax recognized in OCI (Note 33.2)	-	-	**(12,361,990)**	-	**15,972,279**	**(1,219,876)**	**2,390,413**
Transfer to Statutory Reserve Fund (Note 22)	-	**30,703,568**	-	-	-	**(30,703,568)**	-
As at 31st December 2022	**4,938,390,142**	**115,929,356**	**199,089,723**	**32,853,912**	**6,930,553**	**1,851,919,415**	**7,145,113,101**

The notes to the financial statements from page 8 to 55 form an integral part of these financial statements.

HABIB BANK LIMITED - SRI LANKA BRANCH
STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31ST DECEMBER,	Note	2022 Rs.	2021 Rs.
Cash Flows from Operating Activities			
Net Cash Flow from Operating Activities Before Income Tax	34	**1,110,461,796**	326,229,727
Operating Profit before Changes in Operating Assets and Liabilities		**1,110,461,796**	326,229,727
Increase in Operating Assets	34.2	**(1,987,637,833)**	(2,860,512,338)
Increase in Operating Liabilities	34.3	**3,379,370,313**	2,196,256,212
Net cash flow generated / (used in) from operating activities before income tax		**2,502,194,277**	(338,026,399)
Employee Benefits Paid	18	**(6,849,691)**	(6,291,824)
Income Tax Paid	17	**(221,136,404)**	(20,000,000)
Net Cash Flows from / (used in) Operating Activities		**2,274,208,182**	(364,318,223)
Cash Flows from Investing Activities			
Purchase of Property Plant and Equipment	12.3	**(15,212,889)**	(4,309,001)
Dividends Received	29	**2,292,500**	2,559,500
Proceeds from Sale of Property Plant and Equipment		**1,349,500**	2,177,000
Net Cash Flows (used in)/ generated from Investing Activities		**(11,570,889)**	427,499
Cash Flows from Financing Activities			
Payments to Lease Creditor	13.1	**(15,330,562)**	(19,450,872)
Net Cash Flows (used in)/ generated from Financing Activities		**(15,330,562)**	(19,450,872)
Exchange differences on translations of foreign currency capital and foreign currency reserves		**22,147,213**	1,909,486
Net Increase / (Decrease) in Cash and Cash Equivalents		**2,269,453,944**	(381,432,110)
Cash and Cash Equivalents at the Beginning of the Year	4	**437,135,966**	818,568,074
Cash and Cash Equivalents at the End of the Year	4	**2,706,589,910**	437,135,966

The notes to the financial statements from page 8 to 55 form an integral part of these financial statements.

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. It is a foreign branch of Habib Bank Limited, which is incorporated in Pakistan. The registered office of the Bank is located at No.140-142, 2nd Cross Street, Colombo 11.

1.2 Principal Activities and Nature of Operations

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

1.3 Date of Authorization for Issue

The Financial Statements of Habib Bank Limited – Sri Lanka Branch for the year ended 31st December 2022 were authorized for issue by the local management on 30th March 2023.

2 Summary of Significant Accounting Policies

2.1 Statement of Compliance

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

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

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

2.1.1 Basis of Measurement

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

2.1.2 Presentation of Financial Statements

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

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

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the 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 Comprehensive Income unless required or permitted by any accounting standard or interpretation.

2.1.3 Comparative information

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

2 Summary of Significant Accounting Policies (Continued)

2.2 Significant Accounting Judgements, Estimates and Assumptions

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

2.2.1 Impairment Losses on Loans and Advances

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

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

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

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

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

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

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

The impairment loss on loans and advances is disclosed in more detail in Note 2.5.6 and Note 8 to the financial statements.

Write-off

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

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.

2.2.2 Lease Accounting

The estimation uncertainties and judgements made in relation to lease accounting is disclosed in more detail in Note 2.17 and Note 13 to the financial statements.

2 Summary of Significant Accounting Policies (Continued)

2.2 Significant Accounting Judgements, Estimates and Assumptions (Continued)

2.2.3 Retirement Benefit Obligation

The cost of the defined benefit plan – gratuity is determined using an actuarial valuation. Actuarial valuation involves making assumptions about discount rates, future salary increases, remaining working life of employees and mortality rates. Due to the long term nature of these obligations, such estimates are subject to significant uncertainty. The details of the employee benefit liability are disclosed in Note 18 to the financial statements.

2.2.4 Revaluation of Property Plant and Equipment

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

2.2.5 Financial Instruments carried at Fair Value

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

2.2.6 Income tax and Other taxes

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

Deferred tax assets are recognized in respect of tax losses to the extent that it is probable that future taxable profits will be available against which such tax losses can be set off. Judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits. The details of the deferred tax asset are described in more detail in Note 2.18 and Note 19 to the financial statements.

2.3 Functional and presentation currency

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

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

Transactions and balances

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

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

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

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

2 Summary of Significant Accounting Policies (Continued)

2.4 Fair value measurement

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

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

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

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.

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

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

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

2.5 Financial Instruments

2.5.1 Initial Recognition and Subsequent 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) Recognition and Initial Measurement of Financial Instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing instruments.

All financial instruments are measured initially at their fair value plus or minus the transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability, except in the case of financial assets and financial liabilities measured at fair value through profit or loss. Trade receivables are measured at transaction price.

(iii) Classification and Subsequent Measurement of Financial Instruments

The Bank classifies all of its financial assets based on the business model for managing the asset and the asset's contractual terms.
These assets are measured at either:
- Amortized Cost
- Fair Value through Other Comprehensive Income (FVOCI)
- Fair Value through Profit or Loss (FVTPL)

2 Summary of Significant Accounting Policies (Continued)

2.5 Financial Instruments (Continued)

2.5.2 Business Model Assessment

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Bank's business model is not assessed on an instrument by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment

The business model assessment is based on reasonably expected scenarios without taking into account "worse 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.

2.5.3 Assessment of whether contractual cash flows are Solely Payments ofPrincipal and Interest (SPPI test)

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

For the purpose of this assessment, "principal" is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/ discount).

"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.

When carrying out the SPPI assessment, the Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than "deminimis" 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.

2.5.4 Classification and Subsequent Measurement of Financial Assets

(a) 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.

2 Summary of Significant Accounting Policies (Continued)

2.5 Financial Instruments (Continued)

2.5.4 Classification and Subsequent Measurement of Financial Assets (Continued)

(b) Financial Assets measured at FVOCI

- Debt Instruments 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 The Fina 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. The ECL calculation for debt instruments at FVOCI is explained in Note 3. 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 at FVOCI

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

Gains and losses on these equity instruments are never recycled to Profit or Loss. Dividends are recognized in Profit or Loss as 'other operating income' when the right of the payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI.

(c) Financial Assets measured at FVTPL

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

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

(d) Financial Liabilities measured at Amortised Cost

Financial liabilities issued by the Bank that are not designated at FVTPL are classified as financial liabilities measured at amortised cost.

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

(e) Financial liabilities designated at fair value through profit or loss

Financial liabilities in this category are those that are not held for trading and have been either designated by the Bank upon initial recognition or are mandatorily required to be measured at fair value under SLFRS 9. Bank only designates a financial liability at FVTPL upon initial recognition when one of the following criteria are met. Such designation is determined on an instrument-by-instrument basis:

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets and liabilities or recognising gains or losses on them on a different basis or,
- The liabilities are part of a group of financial liabilities, which are managed and their performances are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

2 Summary of Significant Accounting Policies (Continued)

2.5 Financial Instruments (Continued)

2.5.4 Classification and Subsequent Measurement of Financial Assets (Continued)

(e) Financial liabilities designated at fair value through profit or loss

- The liabilities containing one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative(s) is prohibited.

Changes in fair value are recorded in income statement with the exception of movements in fair value of liabilities designated at FVTPL due to changes in the Bank's own credit risk. Such changes in fair value are recorded in the own credit reserve through other comprehensive income and do not get recycled to the income statement. Interest earned or incurred on instruments designated at FVTPL is accrued in interest income or interest expense, respectively, using the effective interest rate, taking into account any discount/premium and qualifying transaction costs being an integral part of the instrument.

2.5.5 Reclassifications of Financial Instruments

As per the requirement of SLFRS 9, the Bank reclassifies its financial assets subsequent to the initial recognition when and only when the business model for managing such financial assets is changed. Such reclassifications are applied prospectively from the reclassification date. Financial liabilities are not reclassified as such reclassifications are not permitted by SLFRS 9.

- If a financial asset is reclassified out of the amortised cost measurement category and into the fair value through profit or loss measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortised cost of the financial asset and fair value is recognised in income statement.
- If the reclassification takes place out of the fair value through profit or loss category into the amortised cost measurement category, its fair value at the reclassification date becomes the new gross carrying amount.
- If the reclassification takes place out of the amortised cost measurement category and into the fair value through other comprehensive income measurement category, fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortised cost of the financial asset and fair value is recognised in other comprehensive income. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification.

2.5.6 Impairment of financial assets

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

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

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

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

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

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

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

2 Summary of Significant Accounting Policies (Continued)

2.5 Financial Instruments (Continued)

2.5.6 Impairment of financial assets

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

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

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

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

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

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

Further any impact due to uncertain macro economic conidtion, to the impairment of financial assets have been considered and relevant impairment charge has been recognized appropriately.

2.5.7 De-recognition of Financial Assets and Financial Liabilities

(i) Financial Assets

A financial asset is derecognized when:

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

(ii) Financial Liabilities

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

2.6 Derivative Financial Instruments

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

2.7 Reverse Repurchase Agreements

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

2 Summary of Significant Accounting Policies (Continued)

2.8 Property, Plant and Equipment

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

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. Refer Note 12 to the financial statements for revaluation of land and buildings.

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

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

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 comprehensive income in the year the asset is derecognized.

2.9 Cash and Cash Equivalents

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

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

2.10 Placements with Financial Institutions

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

2.11 Assigned Capital

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

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

2 Summary of Significant Accounting Policies (Continued)

2.12 Statutory Reserve Fund

Five per centum of profits after tax is transferred to the statutory reserve fund as required by section 20(1) of the Banking Act No 30 of 1988. This reserve fund will be used only for the purposes specified in Section 20 (2) of the Banking Act No 30 of 1988. Transfers made during the year from Retained earnings to Statutory Reserve Fund is Rs. 30,703,568 (Note 21).

2.13 Impairment of Non-Financial Assets

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

2.14 Financial Guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letter of credit, guarantees and acceptances. The financial guarantee liability is initially measured at fair value and subsequently at the higher of: the amount determined in accordance with the expected credit loss model under 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 income statement in "Fees and Commission Income" on a straight line basis over the life of the guarantee.

2.15 Employee Benefits

(a) Defined Benefit Plan - Retirement Benefit Obligation

The Bank measures the present value of the promised retirement benefits of gratuity which is a defined benefit plan using the actuarial valuation method. The actuarial valuation involves making assumptions about discount rate, future salary increase rate and mortality rates etc. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date. Accordingly the employee benefit liability is based on the actuarial valuation as at 31 December 2022 carried out by Messrs. Actuarial and Management Consultants (Private) Limited, actuaries. Refer Note 18 to the financial statements for details on Gratuity.

The gratuity liability is not externally funded.

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

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

2.16 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 comprehensive income.

2.17 Leases

At inception of a contract, the Group 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.

2 Summary of Significant Accounting Policies (Continued)

2.17 Leases (Continued)

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.

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 Asset' and lease liabilities in a separate line item in the statement of financial position

2.18 Taxes

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in OCI.

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 Income Tax

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

Income tax on profits from Domestic Banking Unit and Foreign Currency Banking Unit is calculated at the rate of 24% for the first half and 30% for the second half. (2021: 24%)

Deferred Tax

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

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

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

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

2 Summary of Significant Accounting Policies (Continued)

2.18 Taxes (Continued)

Value Added Tax (VAT) on financial services

During the year, Bank's total 'value addition' was subjected to 18% VAT on financial services as per Section 25A of the Value Added Tax Act No. 14 of 2002 and amendments there to.

2.19 Statement of Profit of Loss and Other Comprehensive Income

a) 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.

b) Interest Income and Expenses

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

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

c) Fee and Commission Income

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

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

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

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

Types of Services	Nature and timing of satisfaction of performance obligations, including significant payment terms	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 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.	Revenue from account service and serving fees is recognized overtime as the services are provided
	Transaction based fees for interchange, foreign currency transactions and overdrafts are changed to the customers accounts when the transaction takes place. Servicing fees are changed on a monthly basis and are based on fixed rates reviewed annually by the bank.	Revenue related to transactions is recognized at the point in time when the transaction takes place

(ii) Fee income from providing transaction services

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

c) Net trading income

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

2 Summary of Significant Accounting Policies (Continued)

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

d) Dividend income

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

e) Other income

Other income is recognized on an accrual basis.

f) Other expenses

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

2.20 Contingent Liabilities and Commitments

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

Financial Guarantees and Undrawn Facilities

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

2.21 Cash Flow Statement

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

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

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

2.23 Standards issued but not yet Effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2022 and earlier application is permitted; However, the Bank has not early adopted the new and amended standards in preparing these consolidated financial statements.

a) Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to LKAS 12)

The amendments narrow the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences – e.g. leases. The amendments apply for annual reporting periods beginning on or after 1 January 2023. For leases, the associated deferred tax asset and liabilities will need to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. For all other transactions, the amendments apply to transactions that occur after the beginning of the earliest period presented.

b) Other Standards

The following new and amended standards are not expected to have a significant impact on the Bank's financial statements.

- Classification of liabilities as current or non-current (Amendments to LKAS 1) - effective for annual periods beginning on or after 1st January 2023.
- Disclosure of accounting policies (Amendments to LKAS 1 and SLFRS Practice Statement 2) - effective for annual periods beginning on or after 1st January 2023
- Definition of accounting estimates (Amendments to LKAS 8) - effective for annual periods beginning on or after 1st January 2023
- Lease liability in a sale and leased back (Amendment to SLFRS 16) - effective for annual periods beginning on or after 1st January 2024.

AS AT 31ST DECEMBER,

3 Classification of Financial Assets and Financial Liabilities

	2022 Rs.	2021 Rs.
Assets		
Financial Assets at Amortized Cost		
Cash and Cash Equivalents	**2,706,589,911**	437,135,965
Balances with Central Bank of Sri Lanka	**110,918,346**	111,707,246
Placement with Financial Institution	**2,121,871,689**	1,203,927,042
Other Financial Assets	**568,158,772**	773,367,510
Loans and Advances to Customers	**5,069,999,634**	2,445,131,093
Investment in Government Securities	**2,599,986,211**	2,418,926,891
Total Financial Assets at Amortized Cost	**13,177,524,563**	7,390,195,747
Financial Assets measured at Fair value through OCI		
Financial Assets measured at Fair value through OCI	**4,154,908,262**	5,915,385,869
Total Financial Assets measured at Fair value through OCI	**4,154,908,262**	5,915,385,869
Liabilities		
Financial Liabilities at Amortized Cost		
Due to Banks	**6,987,742**	142,333,612
Due to Customers	**10,234,860,414**	5,670,667,845
Total Financial Liabilities	**10,241,848,156**	5,813,001,457

4 Cash and Cash Equivalents

	2022 Rs.	2021 Rs.
Cash in Hand - Local currency	**127,751,892**	63,965,914
Cash in Hand - Foreign currency (United States Dollar)	**3,503,648**	250,943
Balances with Banks	**1,443,433,300**	79,878,971
Money at Call and Short notice	**1,131,901,071**	293,040,137
	2,706,589,911	437,135,965

Money at call and short notice includes Standing Deposit Facility with CBSL which was funded by excess liquidity kept for operating purposes. 2022 - Rs. 1,131 Mn (2021 - Rs. 293 Mn)

5 Balances with Central Bank of Sri Lanka

	2022 Rs.	2021 Rs.
Money held at Central Bank of Sri Lanka (in Sri Lanka Rupees)	**110,918,346**	111,707,246
	110,918,346	111,707,246

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 31st December 2022, the minimum cash reserve requirement was 4% (2021 -4%) of the rupee deposit liabilities of Domestic Banking Unit. There is no reserve requirement for foreign currency deposit liabilities in Domestic Banking Unit and the deposit liabilities in Foreign Currency Banking Unit.

6 Placement with Financial Institutions

	2022 Rs.	2021 Rs.
Other placements with financial institutions	**2,129,642,581**	1,203,927,042
Provision for Impairment	**(7,770,892)**	-
	2,121,871,689	1,203,927,042

The balance as at 31st December 2022 represents placements with Seylan Bank amounting to Rs.300 Mn at 17.5% & HBL UK US $5Mn at 2.5% along with interest receivable.

AS AT 31ST DECEMBER,

7	**Derivative Financial Instruments**	**2022**	2021
		Rs.	Rs.
	Foreign currency forwards contracts	**12,083,456**	(22,703,767)
		12,083,456	(22,703,767)

8	**Financial Assets at Amortized Cost - Loans and Advances**	**2022**	2021
		Rs.	Rs.
	Gross Loans and Advances		
	Stage 1	**4,438,406,907**	1,341,774,819
	Stage 2	**738,645,517**	318,620,831
	Stage 3	**251,566,796**	1,010,779,916
	Total Gross Loans and Advances	**5,428,619,220**	2,671,175,566
	Accumulated Impairment		
	Stage 1	**(48,946,319)**	(128,997)
	Stage 2	**(58,106,469)**	(732,987)
	Stage 3	**(251,566,798)**	(225,182,489)
	Total Accumulated Impairment	**(358,619,586)**	(226,044,473)
	Net Loans and Advances	**5,069,999,634**	2,445,131,093

8.1	**Net Loans and Advances by Product**		
	Term Loans	**2,147,662,455**	1,300,896,973
	Overdrafts	**1,939,834,118**	1,005,517,629
	Short Term Loans	**495,584,742**	27,097,680
	Trade Finance Loans	**760,280,911**	288,555,946
	Gross Total	**5,343,362,226**	2,622,068,228
	Allowance for Impairment Losses **(Note 8.3)**	**(358,619,586)**	(226,044,473)
		4,984,742,640	2,396,023,755
	Staff Loans	**85,256,994**	76,521,801
	Less : Allowance for day 1 difference	**-**	(27,414,462)
	Gross Total	**85,256,994**	49,107,338
		5,069,999,634	2,445,131,093

8.2	**Net Loans and Advances by Currency**		
	Local Currency - Sri Lankan Rupees	**2,321,901,504**	2,126,064,512
	Foreign Currency	**2,748,098,130**	319,066,581
		5,069,999,634	2,445,131,093

8.3	**Allowance for Impairment Losses**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
		Rs.	**Rs.**	**Rs.**	**Rs.**
	Balance as at 1st January 2022	**128,997**	**732,987**	**225,182,489**	**226,044,473**
	Charge / (write back) to profit or loss statement	**48,817,322**	**57,373,482**	**2,554,509**	**108,745,313**
	Write off during the year *	**-**	**-**	**(3,368,251)**	**(3,368,251)**
	Foreign exchange (gains)/ losses	**-**	**-**	**27,198,051**	**27,198,051**
	Balance as at 31st December 2022	**48,946,319**	**58,106,469**	**251,566,798**	**358,619,586**

		Stage 1	Stage 2	Stage 3	Total
		Rs.	Rs.	Rs.	Rs.
	Balance as at 1st January 2021	225,027	54,429,954	185,350,715	240,005,696
	Charge / (write back) to profit or loss statement	(96,030)	(54,084,427)	34,196,046	(19,984,411)
	Write off during the year *	-	-	-	-
	Foreign exchange (gains)/ losses	-	387,460	5,635,728	6,023,188
	Balance as at 31st December 2021	128,997	732,987	225,182,489	226,044,473

*The contractual amount outstanding on financial assets that were written off during the year ended 31 December 2022 and that are still subject to enforcement actively is LKR 3.3Mn (2021 – Nil).

AS AT 31ST DECEMBER,

9	**Financial Assets at Amortized Cost - Debt and Other Instruments**	**2022 Rs.**	2021 Rs.
	Investment in Government Securities **(Note 9.1)**	**2,599,986,211**	2,418,926,891
	Investment in Other Securities **(Note 9.2)**	**568,158,772**	773,900,581
	Provision for Impairment **(Note 9.3)**	**-**	(533,071)
		3,168,144,983	3,192,294,401

9.1	**Investment in Government Securities**		
	Government Treasury Bonds	**2,599,986,211**	2,418,926,891
		2,599,986,211	2,418,926,891

9.2	**Investment in Other Securities**		
	Trust Certificates	**568,158,772**	773,900,581
		568,158,772	773,900,581

The above balance represents investment in trust certificates of LOLC Development Finance PLC amounting to Rs. 500 Mn PLC which matures in 2023 (Rs. 300 Mn) & 2024 (Rs. 200 Mn).

9.3	**Provision for Impairment**		
	Stage 1		
	Opening Balance	**533,071**	1,784,324
	Write back to Profit or Loss Statement	**(533,071)**	(1,251,253)
	Closing Balance	**-**	533,071
	Stage 2		
	Opening Balance	**-**	-
	Closing Balance	**-**	-
	Stage 3		
	Opening Balance	**-**	-
	Closing Balance	**-**	-
		-	533,071

10	**Financial Assets measured at Fair value through Other Comprehensive Income**	**2022 Rs.**	2021 Rs.
	Investment in Government Securities - Treasury Bills	**3,972,775,844**	5,888,440,525
	Investment in Government Securities - Treasury Bonds	**153,514,931**	-
	Unquoted shares held by the Bank **(Note 10.1)**	**28,617,487**	26,945,344
		4,154,908,262	5,915,385,869

10.1 Unquoted shares held by the Bank

	2022			2021		
	No of Ordinary Shares	**Cost of Investment**	**Fair Value**	No of Ordinary Shares	Cost of Investment	Fair Value
Lanka Clear (Private) Limited	50,000	500,000	11,655,658	50,000	500,000	10,138,732
Credit Information Bureau of Sri Lanka	800	80,000	16,961,829	800	80,000	16,806,612
			28,617,487			26,945,344

*Management's valuation of investments in unquoted share investment amounts to Rs. 28,617,487/- and has been determined on basis of relative net asset portion to the percentage of ownership owned by the bank.

Net Assets per Share (Rs.)	**2022**	2021
Credit Information Bureau of Sri Lanka	**21,202**	21,008
Lanka Clear (Private) Limited	**233**	203

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. 1.67 million for the year ended 31st December 2022. (2021 : Rs. 3.6mn)

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

AS AT 31ST DECEMBER,

11	**Other Assets**	**2022**	2021
		Rs.	Rs.
	Deposits and Prepayments	**7,011,008**	5,372,038
	Prepaid Staff cost	**28,922,840**	27,414,462
	Other Assets **(Note 11.1)**	**140,597,488**	55,730,189
		176,531,336	88,516,690

11.1 * Inward and Outward net cheque clearing balance to be settled by the Lanka Clear (Private) Limited amounting to Rs 139,977,279/- (2021 - Rs. 54,208,816/-) is included in the other assets balance as at 31st December 2022.

12	**Property, Plant and Equipment**	**Balance as at 01.01.2022**	**Additions**	**Disposals/ transfers and write-offs**	**Balance as at 31.12.2022**
	At Cost / Revaluation				
	Freehold Land	**211,900,000**	-	-	**211,900,000**
	Freehold Building	**60,900,000**	**1,049,720**	-	**61,949,720**
	Motor Vehicles	**23,250,000**	-	-	**23,250,000**
	Computer, Furniture and Fittings	**139,027,901**	**14,163,169**	**(466,000)**	**152,725,070**
		435,077,901	**15,212,889**	**(466,000)**	**449,824,790**
	Improvements on Leasehold Building	**36,523,112**	-	-	**36,523,112**
		36,523,112	-	-	**36,523,112**
	Total Cost	**471,601,013**	**15,212,889**	**(466,000)**	**486,347,902**

		Balance as at 01.01.2021	Additions	Disposals/ transfers and write-offs	Balance as at 31.12.2021
	At Cost / Revaluation				
	Freehold Land	211,900,000	-	-	211,900,000
	Freehold Building	60,900,000	-	-	60,900,000
	Motor Vehicles	23,250,000	-	-	23,250,000
	Computer, Furniture and Fittings	144,502,506	4,309,001	(9,783,606)	139,027,901
		440,552,507	4,309,001	(9,783,606)	435,077,901
	Improvements on Leasehold Building	41,027,551	-	(4,504,439)	36,523,112
		41,027,551	-	(4,504,439)	36,523,112
	Total Cost	481,580,058	4,309,001	(14,288,045)	471,601,013

AS AT 31ST DECEMBER,

12	**Property, Plant and Equipment (Continued)**	**Balance as at 01.01.2022**	**Charge for the year**	**Disposals/ transfers and write-offs**	**Balance as at 31.12.2022**
	Accumulated Depreciation				
	Freehold Building	**4,710,615**	**4,353,964**	**-**	**9,064,579**
	Motor Vehicles	**23,250,000**	**-**	**-**	**23,250,000**
	Computer, Furniture and Fittings	**126,725,600**	**5,876,796**	**(466,000)**	**132,136,396**
		154,686,215	**10,230,760**	**(466,000)**	**164,450,975**
	Improvements on Leasehold Building	**36,112,278**	**104,888**	**-**	**36,217,166**
		36,112,278	**104,888**	**-**	**36,217,166**
	Total Accumulated Depreciation	**190,798,493**	**10,335,648**	**(466,000)**	**200,668,141**

	Balance as at 01.01.2021	Charge for the year	Disposals/ transfers and write-offs	Balance as at 31.12.2021
Accumulated Depreciation				
Freehold Building	362,355	4,348,260	-	4,710,615
Motor Vehicles	23,250,000	-	-	23,250,000
Computer, Furniture and Fittings	130,106,996	5,309,428	(8,690,824)	126,725,600
	153,719,351	9,657,688	(8,690,824)	154,686,215
Improvements on Leasehold Building	40,511,852	104,865	(4,504,439)	36,112,278
	40,511,852	104,865	(4,504,439)	36,112,278
Total Accumulated Depreciation	194,231,203	9,762,553	(13,195,263)	190,798,493

12.1	**Net Book Value**	**2022 Rs.**	2021 Rs.
	Freehold Land	**211,900,000**	211,900,000
	Freehold Building	**52,885,141**	56,189,385
	Computer, Furniture and Fittings	**20,588,675**	12,302,301
		285,373,816	280,391,686
	Improvements on Leasehold Building	**305,946**	410,834
	Total Net Book Value	**285,679,762**	280,802,520

AS AT 31ST DECEMBER,

12 Property, Plant and Equipment (Continued)

12.2 Revaluation of land and buildings

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 8th December 2020 by Mr. S.A.S Fernando (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. 26,000,000/- Building - per square meter Rs. 6,500/-

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

Reconciliation of fair value	**2022**	2021
	Rs.	Rs.
As at 1st January	**272,800,000**	272,800,000
Revaluation Surplus	-	-
As at 31st December	**272,800,000**	272,800,000

12.3 During the financial year, the Bank acquired property, plant and equipment to the aggregate value of Rs 15,212,889 (2021- Rs.4,309,001). Cash payments amounting to Rs 15,212,889 (2021- Rs. 4,309,001) were made during the year for purchase of property plant and equipment.

12.4 Property, plant and equipment includes fully depreciated assets having a gross carrying amount of Rs. 179,997,181 (2021 - Rs.172,766,757).

13 Leases	**2022**	2021
	Rs.	Rs.
13.1 Right of Use Assets		
Opening Balance	**37,539,193**	26,294,422
Depreciation	**(13,857,581)**	(15,489,456)
Additions during the year	-	29,422,627
Disposals during the year	-	(2,688,400)
Closing Balance	**23,681,612**	37,539,193
Lease Liabilities		
Opening Balance	**32,992,498**	21,051,732
Additions during the year	-	29,422,627
Interest	**1,842,352**	1,969,012
Payments	**(15,330,562)**	(19,450,872)
Closing Balance	**19,504,288**	32,992,498
Lease Liabilities		
Current	**15,644,453**	17,972,264
Non-current	**3,859,836**	15,020,234
	19,504,289	32,992,498
The lease liability recognized in P&L and Cashflow		
Lease Interest	**1,842,352**	1,969,012
The total cash outflow for leases	**15,330,562**	19,450,872

AS AT 31ST DECEMBER,

14	**Due to Banks**	**2022**	2021
		Rs.	Rs.
	Deposits from other banks - Vostro's	**835,409**	68,625,748
	Deposits from other banks - Overdrawn Nostros	**6,152,333**	73,707,864
		6,987,742	142,333,612

15	**Financial Liabilities at Amortized Cost - Due to Customers**	**2022**	2021
		Rs.	Rs.
15.1	**Due to customers - by products**		
	Demand Deposits	**2,029,167,135**	1,137,097,003
	Savings Deposits	**3,658,932,673**	2,044,029,080
	Time Deposits	**4,455,686,620**	2,391,410,630
	Call Deposits	**3,475,000**	458,039
	Margin Balances	**87,598,986**	97,673,093
		10,234,860,414	5,670,667,845
15.2	**Due to Customers by Currency**		
	Local currency - Sri Lankan Rupees	**5,096,104,235**	3,234,313,573
	Foreign currency - United States Dollar	**4,492,209,363**	2,027,697,170
	Foreign currency - Others	**646,546,816**	408,657,102
		10,234,860,414	5,670,667,845

16	**Financial Liabilities measured at Amortized Cost - Other Borrowings**	**2022**	2021
		Rs.	Rs.
	Foreign Borrowings	**-**	1,103,202,948
		-	1,103,202,948

17	**Current Tax Liabilities**	**2022**	2021
		Rs.	Rs.
	Balanace as at 1st April	**42,346,534**	(30,203,466)
	Provision for the Year	**423,201,682**	92,550,000
	Payment made for previous year	**(66,526,420)**	
	Self-Assessment Payments	**(154,609,984)**	(20,000,000)
	Balance as at 31st March	**244,411,812**	42,346,534

18	**Other Liabilities**	**2022**	2021
		Rs.	Rs.
	Accrued Expenses	**88,642,947**	52,412,831
	Bills Payable	**9,681,234**	9,497,379
	Other Liabilities	**11,436,353**	530,206
	SLFRS 09 provision on unfunded facilities **(Note 18.1)**	**6,628,207**	221,763
		116,388,741	62,662,178
18.1	**Provision on Unfunded Facilities**		
	Stage 1		
	Opening balance	**221,030**	17,262
	Charge to income statement	**6,407,177**	203,768
	Closing balance	**6,628,207**	221,030
	Stage 2		
	Opening balance	**733**	95,258
	Charge to income statement	**(733)**	(94,525)
	Closing balance	**-**	733
	Total Provision on Unfunded Facilities	**6,628,207**	221,763

AS AT 31ST DECEMBER,

19 Retirement Benefit Obligation

	2022 Rs.	2021 Rs.
As at 1st January	**43,969,425**	49,565,435
Current Service Cost	**3,861,980**	3,965,235
Interest Cost	**4,396,942**	3,667,909
Actuarial Gains on Retirement Benefit Obligation	**(4,066,254)**	(6,937,330)
Payments during the year	**(6,849,691)**	(6,291,824)
As at 31st December	**41,312,402**	43,969,425

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

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

Accordingly, the employee benefits obligation is based on the actuarial valuation as at 31st December 2022, carried out by Messrs. Actuarial and Management Consultants (Private) Limited.

The key assumptions used by the management include the following,	2022 Rs.	2021
Rate of Interest	**20%**	10%
Rate of Salary Increase	**14%**	8%
Retirement Age	**60 Years**	60 Years
Average future working life of employees	**7.90 Years**	7.44 Years
Weighted Average duration of Defined Benefit Liability		
Unionized Staff	**4.15 Years**	4.48 Years
Other Staff	**8.34 Years**	6.36 Years

Assumptions regarding future mortality are based on the A1967/70 issued by the Institute of Actuaries, London. Weighted average duration for retirement obligation is 4.15 years Unionized and 8.34 years for Other Staff in 2022 (2021 - Unionized 4.48 years and Other Staff 6.36 years).

19.2 Net benefit expense categorized under personal expenses,

	2022 Rs.	2021 Rs.
Current Service Cost	**3,861,980**	3,965,235
Interest Cost	**4,396,942**	3,667,909
	8,258,922	7,633,144

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

	2022 Rs.	2021 Rs.
1% increase in discount rate	**(1,539,429)**	2,042,169
1% decrease in discount rate	**1,658,972**	2,233,343
1% increase in salary escalation rate	**1,925,158**	2,373,709
1% decrease in salary escalation rate	**(1,809,413)**	(2,203,228)

AS AT 31ST DECEMBER,

20 Deferred Tax Asset / (Liabilities)

	2022 Rs.	2021 Rs.
As at 1 January	**(58,147,875)**	(56,916,924)
(Charge)/Reversal for the Year	**21,780,416**	(1,230,951)
Deferred Tax Charge/(Reversal) to P/L due to rate change	**(3,091,357)**	-
Deferred Tax Charge/(Reversal) to OCI due to rate change	**17,628,326**	-
As at 31 December	**(21,830,490)**	(58,147,875)

20.1 Deferred Tax Liabilities

	2022 Temporary Difference Rs.	2022 Tax Effect Rs.	2021 Temporary Difference Rs.	2021 Tax Effect Rs.
On Property plant and equipment accelerated depreciation allowance	**(4,278,967)**	**(1,283,690)**	(4,564,516)	(1,095,484)
On revaluation of property plant and equipment	**(253,162,813)**	**(75,948,844)**	(264,945,223)	(63,586,854)
On Net gain on financial assets at fair value through OCI	-	-	(28,860,207)	(6,926,450)
On Net Lease Liability	**(4,177,323)**	**(1,253,197)**	(4,546,695)	(1,091,207)
	(261,619,103)	**(78,485,731)**	(302,916,641)	(72,699,994)
20.2 Deferred tax assets				
On Retirement benefit obligations	**41,312,402**	**12,393,721**	43,969,424	10,552,662
On ECL allowance for impairment of financial assets	**121,451,888**	**36,435,566**	16,664,402	3,999,457
On Net gain on financial assets at fair value through OCI	**30,152,764**	**9,045,829**	-	-
	192,917,054	**57,875,116**	60,633,826	14,552,119
Net Deferred Tax Liability	**(68,702,049)**	**(20,610,614)**	(242,282,815)	(58,147,875)

Deferred tax has been determined based on the effective tax rate of 30% (2021 - 24%), as per tax laws issued by department of Inland Revenue.

21 Assigned Capital

	2022 Rs.	2021 Rs.
Assigned capital	**4,938,390,142**	4,938,390,142
	4,938,390,142	4,938,390,142

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

22 Statutory Reserve Fund

	2022 Rs.	2021 Rs.
As at 1 January	**85,225,788**	75,627,789
Transfer from the profits during the year **(Note 25)**	**30,703,568**	9,597,999
As at 31 December	**115,929,356**	85,225,788

22.1 Five per cent of profits after tax is transferred to the Statutory Reserve Fund as required by section 20(1) of the Banking Act No 30 of 1988. This reserve fund will be used only for the purposes specified in Section 20 (2) of the Banking Act No 30 of 1988. Transfers made during the was LKR 30,703,568 (Rs. 9,597,999 in 2021)

23 Revaluation reserve

	2022 Rs.	2021 Rs.
As at 1 January	**211,451,713**	200,853,903
Revaluation of land and building	-	-
Deferred tax related to revaluation of land and building	**(12,361,990)**	10,597,810
As at 31 December	**199,089,723**	211,451,713

The valuation carried out land and building of the branch property is recoreded over here

24 Exchange Equalisation of Reserves

	2022 Rs.	2021 Rs.
As at 1 January	**10,706,699**	8,797,215
Exchange differences on translations of foreign currency reserves	**22,147,213**	1,909,484
As at 31 December	**32,853,912**	10,706,699

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.

FOR THE YEAR ENDED 31ST DECEMBER,

25 Retained Earnings

	2022 Rs.	2021 Rs.
As at 1 January	1,265,705,235	1,078,070,876
Profit for the Year	614,071,370	191,959,987
Other comprehensive income for the year	4,066,254	6,937,330
Deferred Tax recognized in OCI	(1,219,876)	(1,664,959)
Transfers to statutory reserve fund **(Note 21)**	(30,703,568)	(9,597,999)
As at 31 December	1,851,919,415	1,265,705,235

26 Interest Income

	2022 Rs.	2021 Rs.
Placements with Banks and CBSL	153,058,243	68,142,103
Reverse repurchase agreements	184,120	1,148,393
Government securities		
-Treasury bills	539,391,707	221,440,089
-Treasury bonds	342,615,268	265,543,478
Other financial assets	60,638,739	32,487,899
Loans and advances to customers	483,383,479	160,021,585
	1,579,271,556	748,783,547

27 Interest Expense

	2022 Rs.	2021 Rs.
Due to customers	299,993,847	147,942,920
Money market and other borrowings	40,037,313	14,960,229
Interest expense on lease liability	1,842,353	1,969,012
	341,873,513	164,872,160

28 Fees and Commission Income

	2022 Rs.	2021 Rs.
Commission on trade finance facilities	55,287,431	6,669,587
Commission on guarantees	4,232,518	3,605,668
Commission on remittances	19,736,909	3,932,209
	79,256,858	14,207,464

29 Other Operating Income

	2022 Rs.	2021 Rs.
Dividend income	2,292,500	2,559,500
Foreign exchange gain	521,479,103	109,204,812
Gain/Loss on Disposal	1,349,500	-
Other income	16,218,569	11,108,202
	541,339,672	122,872,514

Other income includes incidental charges earned from customers, ATM related fees and charges, Loan processing fees, Cheque book charges. cheque return charges, SWIFT charges, Courier charges recovery and etc.

30 Impairment Charges and Other Losses

	2022 Rs.	2021 Rs.
Individual impairment (charge) / reversal	-	(6,256,264)
Collective impairment (charge) / reversal	(111,250,435)	32,746,990
	(111,250,435)	26,490,726
Impairment Charge on loans and receivables from other customers **(Note 8.3)**	(105,377,062)	25,348,719
Impairment Charge on Investment and placements **(Note 9.3)**	533,071	1,251,250
Impairment Charge on off balance sheet obligations **(Note 18.1)**	(6,406,444)	(109,243)
	(111,250,435)	26,490,726

FOR THE YEAR ENDED 31ST DECEMBER,

31 Personnel Expenses

	2022 Rs.	2021 Rs.
Salaries	**129,985,367**	125,075,183
Employee benefits - defined benefit plan **(Note 19.2)**	**8,258,922**	7,633,143
Employee benefits - defined contribution plan	-	-
Employee Provident Fund (EPF)	**14,128,816**	15,421,064
Employee Trust Fund (ETF)	**3,368,050**	3,129,523
Bonus	**59,473,454**	30,863,418
Other allowances	**79,704,011**	66,396,943
	294,918,620	248,519,274

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

32 Other Operating Expenses

	2022 Rs.	2021 Rs.
Auditors fees and expenses	**4,300,000**	3,162,500
Non audit fees and expenses	-	1,037,500
Legal fees	**3,302,519**	3,978,870
Marketing expenses	**3,219,940**	1,003,554
Travelling expenses	**6,561,603**	3,441,878
Security charges	**5,373,485**	5,112,188
License fee	**7,158,912**	5,087,572
Subscription	**1,812,373**	1,743,025
Inurance charge	**22,537,510**	16,935,437
Janitorial	**3,773,207**	3,598,183
Printing and stationery	**3,331,980**	1,957,022
Communication charges	**14,640,160**	13,895,550
Lighting charges & Water	**6,670,741**	5,053,879
Maintenance charges	**9,913,999**	4,471,096
Brokerage Fee	**937,370**	2,034,537
Clearing Charges	**3,182,386**	1,964,529
Outsource Charges	**6,328,909**	4,927,354
SWIFT and Visa Charges	**13,240,437**	7,897,668
Cash in transit	**365,318**	329,624
Other expenses	**47,606,825**	13,842,385
	164,257,674	101,474,353

33 Income Tax and Other Taxes and Levies

	2022 Rs.	2021 Rs.
33.1 Taxes and Levies on Financial Services		
Value Added Tax (VAT)	**250,846,466**	77,575,000
SSCL	**9,182,069**	-
	260,028,535	77,575,000

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 revised from 15% to 18% effective from 01st January 2022.

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 01 October 2022 onwards.

FOR THE YEAR ENDED 31ST DECEMBER,

		2022 Rs.	2021 Rs.
33	**Income Tax and Other Taxes and Levies (Continued)**		
33.2	**Income Tax Expense**		
	Statement of Profit or Loss		
	Current Income Tax		
	Current income tax on profit for the year	**(423,201,682)**	(92,550,000)
	Deferred income tax		
	Deferred tax Charge for the year	**33,926,972**	(10,151,468)
	Total Tax Expense (Note 33.3)	**(389,274,710)**	(102,701,468)
	Effective Tax Rate	**38.80%**	10.24%
	Effective Tax Rate (Excluding Deferred Tax)	**42.18%**	9.22%
	Statement of Other Comprehensive Income		
	Deferred tax recognized on fair value gain / (loss) from financial instruments at fair value through other comprehensive income	**15,972,279**	(12,333)
	Deferred tax recognized on actuarial loss on retirement benefit obligation	**(1,219,876)**	(1,664,959)
	Deferred tax recognized on Revaluation of Land and Building	**(12,361,990)**	10,597,809
		2,390,413	8,920,517
33.3	**Reconciliation between current tax expenses and the accounting profit:**	**36,317,385**	(1,230,951)
	Accounting Profit before Tax	**1,003,346,080**	294,661,455
	Tax using 24%, 30% tax rate onprofit before tax (PBT)	**270,903,441**	70,718,749
	Tax effect on Dividend income @ 14%	**320,950**	358,330
	Tax effect from expenses not deductible for tax purposes	**181,355,092**	37,902,144
	Tax effect from Allowable deductions and income not subject to tax	**(29,377,801)**	(16,429,224)
	Deferred Tax Charge / (Reversal)	**(33,926,972)**	10,151,468
	Tax Charge	**389,274,710**	102,701,468

The Inland Revenue (Amendment) Act No 45 of 2022 was certified by the speaker on the 19th December 2022. The standard rate of income tax has been increased to 30% in mid-year has resulted in two tax rates being applicable for the Year of Assessment 2022/23. The Bank has computed the current tax payable on a pro rata basis for the Year of Assessment 2022/23.

		2022 Rs.	2021 Rs.
34	**Cash flow information**		
	Cash Flows from Operating Activities		
34.1	**Reconciliation of operating profit**		
	Profit before Tax	**1,003,346,080**	294,661,455
	Loss on disposal of property, plant and equipment	**(1,349,500)**	(1,084,000)
	Depreciation of property plant and equipment **(Note 12)**	**10,335,648**	9,762,553
	Depreciation of right to use asset **(Note 13..1)**	**13,857,581**	15,489,456
	Impairment reversal for loans and advances **(Note 30)**	**105,377,062**	(25,348,719)
	Impairment reversal for investment and unfunded facilities **(Note 30)**	**5,873,373**	(1,142,007)
	Dividend income **(Note 29)**	**(2,292,500)**	(2,559,500)
	Gratuity expense **(Note 19.1)**	**8,258,922**	7,633,144
	Interest on lease creditor	**1,842,353**	1,969,012
	Unrealized fair value losses on financial instruments measured at FVTPL **(Note 7)**	**(34,787,222)**	26,848,332
		1,110,461,796	326,229,727
34.2	**Increase / (decrease) in operating assets**		
	Placement with banks **(Note 6)**	**(925,715,539)**	(1,102,884,919)
	Balances with Central Bank of Sri Lanka **(Note 5)**	**788,900**	(81,137,626)
	Other financial assets	**1,782,747,108**	(2,153,146,015)
	Loans and advances to customers **(Note 8)**	**(2,757,443,654)**	484,541,058
	Other assets	**(88,014,647)**	(7,884,837)
		(1,987,637,833)	(2,860,512,338)

FOR THE YEAR ENDED 31ST DECEMBER,

34 Cash flow information (Continued)	**2022**	2021
	Rs.	Rs.
34.3 (Decrease) / increase in operating liabilities		
Due to banks (Vostro)	**(135,345,870)**	83,337,157
Due to customers	**4,564,192,568**	1,589,476,007
Other borrowing	**(1,103,202,948)**	541,162,032
Other liabilities **(Note 18)**	**53,726,563**	(17,718,984)
	3,379,370,313	2,196,256,212

35 Related party disclosure

The Bank carries out transactions in the ordinary course of business on an arms length basis at commercial rates with related parties.
Details of significant related party disclosures are as follows,

35.1 Transactions with Key Management Personnel

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

	2022	2021
	Rs.	Rs.
Short term employee benefits	**53,422,018**	51,419,096
Deposits	**25,005,590**	23,911,263
Interest expense	**205,064**	663,854
	78,632,672	75,994,213

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

Balances due from Banks (Nostro Balances)		
Habib Bank Limited - UAE	**931,187,661**	51,448,025
Habib Allied International Bank- UK	**99,191,382**	3,339,100
Habib Bank Limited - Belgium	**44,380,956**	59,944
Habib Bank Limited - Singapore	**11,633,680**	136,292
Habib Bank Limited - Bangladesh	**8,265,491**	2,337,820
Habib Bank Limited - Pakistan	**32,083,636**	1,681,563
Habib Bank Limited - Baharain	**-**	-
Habib Bank Limited - Urumqi Branch China	**13,566,483**	1,003,485
	1,140,309,289	60,006,229
Balances due to Banks (Vostro Balances)		
Habib Bank Limited - Male	**151,883**	41,181,067
Habib Bank Limited - Central Branch - Oman	**257,300**	257,300
Habib Bank Limited - Deira Branch - Dubai	**112,078**	112,078
Habib Bank Limited - HO Treasury - Karachi	**314,148**	27,075,303
	835,409	68,625,748
Balances due to Banks (Overdrawn Nostro Balances)		
Habib Bank Limited - Baharain	**6,152,333**	4,754,412
Habib Bank Limited - Pakistan	**-**	39,649,953
	6,152,333	44,404,365

35.3 Transactions with Habib Bank Limited - Employee Provident Fund

Items in the statement of financial position - Liabilities		
Saving deposit	**169,246,181**	153,347,953
	169,246,181	153,347,953
Items in the statement of comprehensive income		
Employee benefits - Employee Provident Fund	**14,128,816**	15,421,064
Interest expense	**10,934,819**	8,290,221
	25,063,635	23,711,285

FOR THE YEAR ENDED 31ST DECEMBER,

36 Maturity analysis of assets and liabilities

As at 31 December	Within 12 Months	After 12 Months	2022 Total	Within 12 Months	After 12 Months	2021 Total
Assets						
Cash and cash equivalents	**2,706,589,911**	-	**2,706,589,911**	437,135,966	-	437,135,966
Balances with Central Bank of Sri Lanka	**110,918,346**	-	**110,918,346**	111,707,246	-	111,707,246
Placements with financial institutions	**2,121,871,689**	-	**2,121,871,689**	1,203,927,042	-	1,203,927,042
Derivative Financial Instruments	**12,083,456**	-	**12,083,456**	-	-	-
Financial assets at amortized cost	**1,128,722,774**	**1,471,263,437**	**2,599,986,211**	1,307,196,514	1,111,197,306	2,418,393,820
Other financial assets at amortized cost	**340,730,137**	**227,428,635**	**568,158,772**	205,000,000	568,900,581	773,900,581
Loans and advances to customers	**3,168,448,183**	**1,901,551,451**	**5,069,999,634**	1,867,597,079	1,025,047,081	2,445,131,093
Financial assets measured at FVOCI	**3,972,775,844**	**182,132,418**	**4,154,908,262**	5,888,440,525	26,945,344	5,915,385,869
Other assets	**176,531,336**	-	**176,531,336**	88,516,690	-	88,516,690
Income tax receivable	-	-	-	-	-	-
Property, Plant and Equipment	-	**285,679,762**	**285,679,762**	-	280,802,520	280,802,520
Right of Use (ROU) Asset	**13,857,581**	**9,824,031**	**23,681,612**	13,857,581	23,681,611	37,539,193
Total assets	**13,752,529,257**	**4,077,879,734**	**17,830,408,991**	11,123,378,642	3,036,574,443	13,712,440,019
Liabilities						
Due to banks	**6,987,742**	-	**6,987,742**	142,333,613	-	142,333,613
Derivative Financial Instruments	-	-	-	22,703,767	-	22,703,767
Due to customers	**10,234,860,414**	-	**10,234,860,414**	5,670,667,845	-	5,670,667,845
Borrowings	-	-	-	1,103,202,948	-	1,103,202,948
Other liabilities	**125,404,987**	**(9,016,246)**	**116,388,741**	80,412,680	24,596,032	105,008,712
Employee benefit liability	-	**41,312,402**	**41,312,402**	-	43,969,425	43,969,425
Deferred Tax Liabilities	-	**21,830,490**	**21,830,490**	-	58,147,875	58,147,875
Total liabilities	**10,367,253,143**	**54,126,646**	**10,421,379,789**	7,019,320,854	126,713,332	7,146,034,186

FOR THE YEAR ENDED 31ST DECEMBER,

37 Fair value measurement

37.1 Fair value measurement hierarchy for assets as at 31 December 2022

37.1.1 Assets measured at fair value

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

Bank	Date of valuation	Total	Quoted prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
As At 31 December 2022		Rs.	Rs.	Rs.	Rs.
Assets measured at fair value					
Land and Building :	08 December 2020	**211,900,000**	-	-	**211,900,000**
	08 December 2020	**60,900,000**	-	-	**60,900,000**
Investment in government securities - treasury bills & Bonds	31 December 2022	**4,126,290,776**	-	**4,126,290,776**	-
Unquoted investments in Lanka Clear (Private) Limited and Credit Information Bureau of Sri Lanka	31 December 2022	**28,617,486**	-	-	**28,617,486**
		4,427,708,262	-	**4,126,290,776**	**301,417,486**

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

As At 31 December 2022					
Other financial assets **(Note 9)**	31 December 2022	**3,168,144,983**	-	**3,168,144,983**	-
Loans and advances to customers **(Note 8)**	31 December 2022	**5,069,999,634**	-	**5,069,999,634**	-
		8,238,144,617	-	**8,238,144,617**	-

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.

FOR THE YEAR ENDED 31ST DECEMBER,

37 Fair value measurement (Continued)

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

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

Assets	2022		2021	
	Fair Value Rs.	**Carrying Value Rs.**	Fair Value Rs.	Carrying Value Rs.
Other financial assets	**2,701,323,768**	**3,168,144,983**	3,231,869,922	3,192,294,401
Loans and advances to customers	**5,069,999,634**	**5,069,999,634**	2,445,131,093	2,445,131,093
	7,771,323,402	**8,238,144,617**	5,677,001,015	5,637,425,494

Assets for which fair value approximates carrying value

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

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

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

Fixed rate financial instruments

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

Based on Bank policy land and buildings were revalued and recognized in Level 3. Please refer Note 12.2 to the financial statements for more details.

AS AT 31ST DECEMBER,

38 Risk management

38.1 Risk management framework

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

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 shall be ultimately responsible to ensure formulation and implementation of a comprehensive Risk Management Policy.

38.1.1 Components of Risk Management Framework

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

38.1.1.1 Strategy

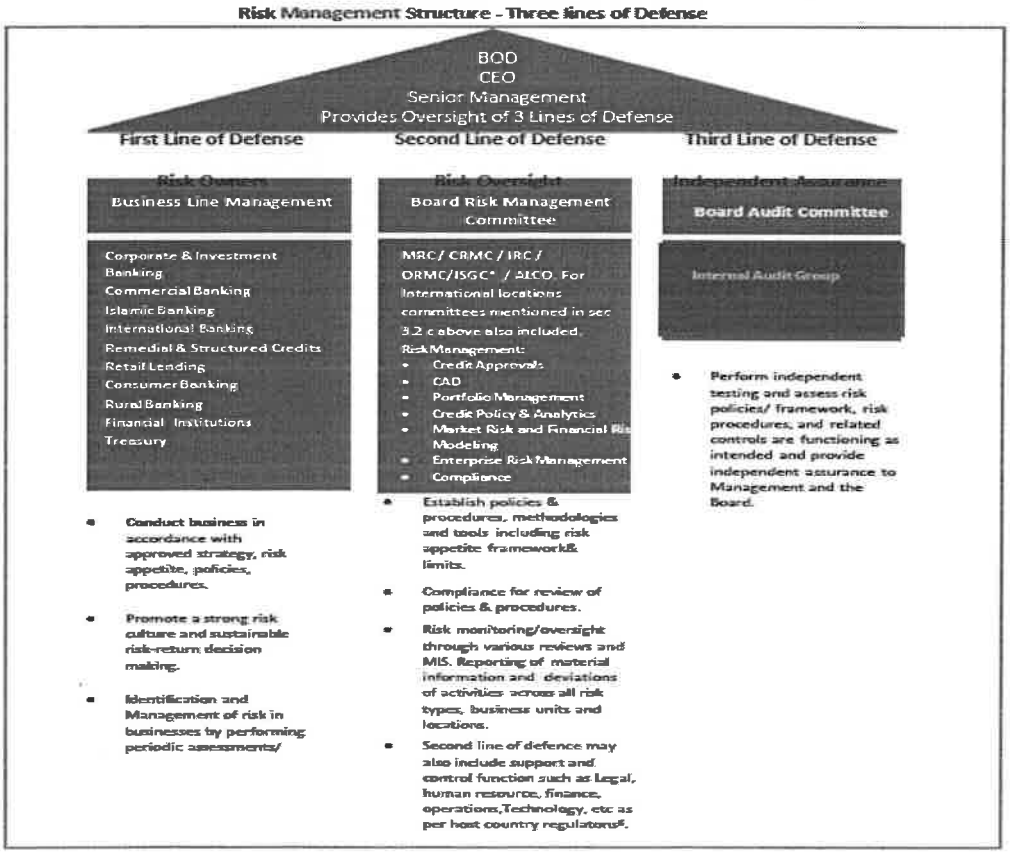
Consolidated annual business plan of the bank will serve as its business strategy. Risk management strategy will essentially be represented by Risk Appetite Statement of HBL SL covering all material Risk types that it is exposed to.

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.

38.1.1.2 Risk Management Structure

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

Risk Management Structure - Three lines of Defense



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

AS AT 31ST DECEMBER,

38 Risk management (Continued)

38.1 Risk management framework (Continued)

38.1.1.2 Risk Management Structure (Continued)

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

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

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

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

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

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-preforming loans and This process envisages establishment of "Early Waring Committees" at both HBL Sri Lanka and HOK 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 liquidit risk management
- Implementation of CBSL guidelines on Basel III including the ICAAP

AS AT 31ST DECEMBER,

38 Risk management (Continued)

38.1 Risk management framework (Continued)

38.1.1.2 Risk Management Structure (Continued)

The impact of economic condition on the business/operations and risk management of the Bank

The Sri Lankan economy, which faced extreme uncertainties and volatilities during the first half of 2022, has shown signs of stability in the second half of the year helped by the policy decisions taken to steer the economy to transition towards a path of stable and sustainable growth over the medium term.

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

38.2 Basel III

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

Pillar I - Minimum Capital Requirement

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

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

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

Pillar II - Supervisory Review Process (SRP)

The stress tests carried out as at 31.12.2022 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 IFRS 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 & 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 38.

AS AT 31ST DECEMBER,

38 Risk management (Continued)

38.3 Credit risk

38.3.1 Introduction

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

38.3.2 Credit strategy / policies

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

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

38.3.3 Credit risk management

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

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

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

Credit risk management organisation

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

International Risk Management, (based in Pakistan)
Integrated Risk Management Committee (IRMC)
Country Risk Management
- Credit Policy
- Credit Approvals
- Credit Administration
- Portfolio Management

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,

38 Risk management (Continued)

38.3 Credit risk (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 assets
-standby letter of credit / bank guarantee
-corporate or personal guarantees

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

Currently Bank is performing ECL computation based on the scenario weightage of 70% in base case & 30% in negative case in line with the ECL policy.

Refer below the movement/ transfer between stages during the year 2022.

	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.
Balance as at 1st January 2022	128,997	732,987	225,182,489	226,044,473
Charge / (write back) to profit or loss statement	48,817,322	57,373,482	4,178,998	110,369,804
Write off during the year	-	-	(3,368,251)	(3,368,251)
Foreign exchange (gains)/ losses	-	-	25,573,561	25,573,562
Balance as at 31st December 2022	48,946,319	58,106,469	251,566,797	358,619,587

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,

38 Risk management (Continued)

38.3.4 Credit risk exposure

The total gross loans and receivables from all credit customers of the Bank stood at Rs. 5,429 Mn as at 31st December 2022 (2021 - Rs. 2,671 Mn) . Please refer Note 8 for the product wise loans and advances.
The loan portfolio of the branch has significantly increased during the year 2022 as against the ECL impairment provisions has been couped up. Further it is to confirm no modification in assets been encounted during the year 2022.

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.

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.

	2022 Impact Increase/(Decrease)		
	Stage 1	**Stage 2**	**Stage 3**
Loan and Advances to Customers at Ammotized Cost			
Due to market growth, the Term Deposit, Overdrafts, Short Term Loans, Trade Finance Loans and Staff Loans have increased by Rs.2,730,029,192	**48,817,322**	**57,373,482**	**26,384,309**
Debt investment securities at Ammotized Cost			
Due to maturity in trust certificates investment in Government Securities and Other Securities have decreased by Rs. 24,149,418	**(533,071)**	-	-
Loan Commitments and Financial Guarntee Contracts			
Due to increase in Trade business during the year, which financial guarantees have decreased by Rs. 1,265,176,897	**6,407,177**	**(733)**	-

	2021 Impact Increase (Decrease)		
	Stage 1	Stage 2	Stage 3
Loan and Advances to Customers at Ammotized Cost			
Due to adverse market rates, HBL has taken a conservative approach in providing loans and advances to customers. The Term Deposit, Overdrafts, Short Term Loans, Trade Finance Loans and Staff Loans have decreased by Rs.457,683,680	(96,030)	(53,696,967)	39,831,774
Debt investment securities at Ammotized Cost			
Due to adverse market rates, HBL has taken a conservative approach in providing loans and advances to customers. Investment in Government Securities and Other Securities have decreased by Rs. 215,644,493	(1,251,253)	-	-

38.3.4.1 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

	2022 Rs.	2021 Rs.
Letter of credits	**260,184,292**	299,653,657
Guarantees	**3,508,632,727**	2,203,986,464
Acceptances	-	232,909,092
Undrawn commitments	**2,574,410,922**	992,849,977
Derivative financial instruments	**1,291,566,125**	3,948,572,719
	7,634,794,066	7,677,971,909

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.

AS AT 31ST DECEMBER,

38 Risk management (Continued)

38.3.4.2 Analysis of risk concentration

The following table shows the risk concentration by industry for the risk concentration related components of the statement of financial position.
The Bank enhanced its credit risk management processes to cover whether a Significant Increase in Credit Risk (SICR) has taken place for customers operating in industries more severely affected by the COVID – 19 pandemic.

As at 31 December 2022 Rs.	Agriculture and fisheries	Financial services	Government	Manufacturing	Construction and housing	Traders	Other	Total
Cash and cash equivalents	-	2,706,589,911	-	-	-	-	-	2,706,589,911
Balances with Central Bank of Sri Lanka	-	-	110,918,346	-	-	-	-	110,918,346
Placements with financial institutions	-	2,121,871,689	-	-	-	-	-	2,121,871,689
Financial Assets at Amortized Cost	-	568,158,772	2,599,986,211	-	-	-	-	3,168,144,983
Financial assets measured at FVTOCI	-	-	4,126,290,776	-	-	-	28,617,486	4,154,908,262
Total other financial assets	-	5,396,620,372	6,837,195,333	-	-	-	28,617,486	12,262,433,191
Loans and advances to customers								
Term loans	-	652,069,295	-	734,552,060	1,281,727	50,294,489	709,464,883	2,147,662,454
Overdraft	97,350,533	-	-	1,216,557,585	1,050,400	297,283,216	327,592,383	1,939,834,117
Short term loans	401,284,783	-	-	50,118,151	416,185	33,208,159	10,557,465	495,584,743
Trade finance loans	728,724,965	-	-	-	-	31,555,946	-	760,280,911
Staff loans	-	-	-	-	-	-	85,256,994	85,256,994
Gross loans and advances	1,227,360,281	652,069,295	-	2,001,227,796	2,748,312	412,341,810	1,132,871,725	5,428,619,219
Allowance for impairment losses	(4,030,533)	(27,361,222)		(145,276,747)	(1,473,354)	(111,114,948)	(69,362,781)	(358,619,585)
Net loans and advances	1,223,329,748	624,708,073	-	1,855,951,049	1,274,958	301,226,862	1,063,508,944	5,069,999,634
Total	1,223,329,748	6,021,328,445	6,837,195,333	1,855,951,049	1,274,958	301,226,862	1,092,126,430	17,332,432,825

AS AT 31ST DECEMBER,

38 Risk management (Continued)

38.3.4.2 Analysis of risk concentration (Continued)

As at 31 December 2021 Rs.	Agriculture and fisheries	Financial services	Government	Manufacturing	Construction and housing	Traders	Other	Total
Cash and cash equivalents	-	437,135,965	-	-	-	-	-	437,135,965
Balances with Central Bank of Sri Lanka	-	-	111,707,246	-	-	-	-	111,707,246
Placements with financial institutions	-	1,203,927,042	-	-	-	-	-	1,203,927,042
Derivative financial instruments	-	-	-	-	-	-	-	-
Financial assets at amortized cost	-	773,367,510	2,418,926,891	-	-	-	-	3,192,294,401
Financial assets measured at FVOCI	-	-	5,888,440,525	-	-	-	26,945,344	5,915,385,869
Total other financial assets	-	2,414,430,518	8,419,074,661	-	-	-	26,945,344	10,860,450,523
Loans and advances to customers								
Term loans	4,191,853.93	335,422,922	-	160,691,972	1,188,085	78,377,805.15	803,499,746	1,383,372,384
Overdraft	-	-	-	484,223,185	2,804,542	135,472,487	304,507,333	927,007,546
Short term loans	-	-	-	4,900,113.16	-	6,513,474	13,162,546	24,576,133
Trade finance loans	257,000,000	-	-	-	-	31,555,946	-	288,555,946
Staff loans	-	-	-	-	9,564,272	-	38,099,286	47,663,558
Gross loans and advances	261,191,854	335,422,922	-	649,815,269	13,556,900	251,919,712	1,159,268,910	2,671,175,567
Allowance for impairment losses	(3,362,870)	-	-	(1,211,287)		(142,245,223)	(79,225,094)	(226,044,474)
Net loans and advances	257,828,984	335,422,923	-	648,603,983	13,556,900	109,674,488	1,080,043,816	2,445,131,093
Total	257,828,984	2,749,853,440	8,419,074,661	648,603,983	13,556,900	109,674,488	1,106,989,160	13,305,581,616

AS AT 31ST DECEMBER,

38 Risk management (Continued)

38.3.4.3 Credit quality analysis

Credit quality of financial assets

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

As at 31 December 2022	Neither past due nor impaired	Past due but not individually impaired	Individually Impaired	2022 Total
Cash and cash equivalents	**2,706,589,911**	-	-	**2,706,589,911**
Balances with Central Bank of Sri Lanka	**110,918,346**			**110,918,346**
Placements with financial institutions	**2,121,871,689**			**2,121,871,689**
Financial assets at amortized cost				
- Gross loans and advances to customers				-
Term loans	**2,147,246,270**	-	**416,185**	**2,147,662,455**
Overdraft	**1,724,181,306**	-	**215,652,812**	**1,939,834,118**
Short term loans	**491,642,889**	-	**3,941,854**	**495,584,743**
Trade finance loans	**728,724,965**	-	**31,555,946**	**760,280,911**
Staff loans	**85,256,994**	-	-	**85,256,994**
- Debt and other instruments	**3,168,144,983**	-	-	**3,168,144,983**
Total	**13,284,577,353**	-	**251,566,797**	**13,536,144,150**

As at 31 December 2021	Neither past due nor impaired	Past due but not individually impaired	Individually Impaired	2021 Total
Cash and cash equivalents	437,135,965	-	-	437,135,965
Balances with Central Bank of Sri Lanka	111,707,246	-	-	111,707,246
Placements with financial institutions	1,203,927,042	-	-	1,203,927,042
Financial assets at amortized cost				
Term loans	426,149,670	74,102,293	800,645,010	1,300,896,973
Overdraft	505,163,856	500,353,773	-	1,005,517,629
Short term loans	6,870,000	20,227,680	-	27,097,680
Trade finance loans	257,000,000	31,555,946	-	288,555,946
Staff loans	74,850,159	-	-	74,850,159
- Debt and other instruments	3,192,294,401	-	-	3,192,294,401
Total	4,462,328,087	626,239,692	800,645,010	5,889,212,788

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

AS AT 31ST DECEMBER,

38 Risk management (Continued)

38.3.4.3 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 - 31.12.2022	Carrying amount	Subject to 12 month ECL (Stage 1)	Subject to Lifetime ECL (Stage 2)	Subject to Lifetime ECL (Stage 3)
Rating 1-3: Investment grade	9,444,924,934	9,444,924,934	-	-
Rating 4-7: Moderate risk		-	-	-
Rating 8-9A: High risk	-	-	-	-
Rating 10-12: Extreme risk	-	-	-	-
	9,444,924,934	9,444,924,934	-	-

Loans and advances to customers - 31.12.2022	Carrying amount	Subject to 12 month ECL (Stage 1)	Subject to Lifetime ECL (Stage 2)	Subject to Lifetime ECL (Stage 3)
Rating 1-3: Investment grade	3,182,247,068	3,182,247,068	-	-
Rating 4-7: Moderate risk	1,285,207,185	1,254,920,231	30,286,954	-
Rating 8-9A: High risk	709,598,171	-	709,598,171	-
Rating 10-12: Extreme risk	251,566,797	-	-	251,566,797
	5,428,619,221	4,437,167,299	739,885,125	251,566,797

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

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

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

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

Entity	Financial Asset	Credit ratings
LOLC	Trust certifcates	[SL] A (Stable); Reaffirmed
Sri Lanka Government	Treasury Bills & Bon	CCC Default
LB Finance	Loans and advances	A- (lka)

AS AT 31ST DECEMBER,

38 Risk management (Continued)

38.3.4.3 Credit quality analysis (Continued)

Aging of past due but not individually impaired financial assets

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

	Past due below 3 months but not impaired	Past due 3-12 months but not impaired	Past due more than 12 months but not impaired	Total past due but not impaired
Term loans	-	-	-	-
Overdraft	-	-	-	-
Short term loans	-	-	-	-
Total	-	-	-	-

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

Bank does not rebut the 30 DPD presumption as a key SICR criterion. Thus any financial instrument which 30 DPD are classified as Stage 2. As of 31.12.2022 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 2022	Less than 3 months	3 to 6 months	6 to 12 months	More than 12 months
Term loans	-	-	-	-
Overdraft	-	-	-	**215,652,812**
Short term loans	-	-	-	**4,358,039**
Trade finance loans	-	-	-	**31,555,946**
Total	-	-	-	**251,566,797**

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,

38 Risk management (Continued)

38.3.4.3 Collateral and other credit enhancements

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

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

Type of Credit Exposure	Exposure that is subject to collateral requirements						
	31st December 2022			31st December 2021			Principle type of collateral held
	Exposure	Net collateral	As a %	Exposure	Net collateral	As a %	
	Rs.	Rs.		Rs.	Rs.		
Cash and cash equivalents							
Cash in Hand - Local currency	**127,751,892**	-	**0%**	63,965,914	-	0%	None
Cash in Hand - Foreign currency (United States Dollar)	**3,503,648**	-	**0%**	250,943	-	0%	None
Balances with Banks	**1,443,433,300**	-	**0%**	79,878,971	-	0%	None
Money at Call and Short notice	**1,131,901,071**	-	**0%**	293,040,137	-	0%	None
Balances with Central Bank of Sri Lanka	**110,918,346**	-	**0%**	111,707,246	-	0%	None
Placements with financial institutions	**2,121,871,689**	-	**0%**	1,203,927,042	-	0%	None
Loans and advances to customers							
Term Loans	**2,147,662,455**	**1,405,785,991**	**65%**	1,300,896,973	934,884,503	72%	PMP/GTE/HST
Overdrafts	**1,939,834,118**	**1,709,079,362**	**88%**	1,005,517,629	980,192,379	97%	LOD/PMP/GTE/FCD/HST
Short Term Loans	**495,584,742**	**494,637,062**	**100%**	27,097,680	18,099,000	67%	LOD/PMP/GTE/FCD/HST
Trade Finance Loans	**760,280,911**	**728,724,965**	**96%**	288,555,946	263,624,166	91%	HST
Staff Loans	**85,256,994**	**85,033,323**	**100%**	49,107,338	49,107,338	100%	LOD/PMP/Vehicle
Debt and other instruments							
Investment in Government Securities	**2,599,986,211**		**0%**	2,418,926,891		0%	None
Investment in Other Securities	**568,158,772**	**568,158,772**	**100%**	773,900,581	773,900,581	100%	Trust Receipts Guaranteed by a local bank
Financial assets measured at FVOCI	**4,154,908,262**	-	**0%**	5,915,385,869	-	0%	None
Contingent liabilities including financial							None
- guarantees and letters of credits	**3,768,817,019**	-	**0%**	2,736,549,214	-	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.

38.4 Market risk

Introduction

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

Market risk structure

The market risk management at HBLSL comprises of,

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

AS AT 31ST DECEMBER,

38 Risk management (Continued)

38.4 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 LiquidityRisk 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.

AS AT 31ST DECEMBER,

38 Risk management (Continued)

38.4 Market risk (Continued)

38.4.1 Interest Rate Risk

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

Interest Rate Risk in the banking book

This is the bank's structural position and is generally held for a longer tenor. Interest rate risk exposures on Banking Book arises on account of mismatches in maturity or re-pricing of assets and liabilities. The Banking book includes all Rate Sensitive Assets (RSA) and Rate Sensitive Liabilities (RSL) not categorized under 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 38.4.1

Interest Rate sensitivity gap analysis as at 31 December 2022

	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	2,706,589,911	1,131,901,071	-	-	-	-	-	-	-	-	1,574,688,840
Balances with Central Bank of Sri Lanka	110,918,346	-	-	-	-	-	-	-	-	-	110,918,346
Placements with financial institutions	2,121,871,689	2,121,871,689	-	-	-	-	-	-	-	-	-
Financial assets at amortized cost	3,168,144,983	-	551,746,303	-	943,801,917	571,433,348	172,707,041	-	928,456,375	-	0
Financial assets measured at FVOCI	4,154,908,262	117,847,168	1,147,156,390	1,835,970,708	871,801,578	-	-	153,514,931	-	-	28,617,487
Gross loans and advances to customers	5,069,999,634	1,418,847,688	1,393,252,473	292,748,446	444,045,669	626,012,971	391,841,565	184,334,614	37,513,035	29,836,377	251,566,796
	17,332,432,825	4,790,467,616	3,092,155,166	2,128,719,154	2,259,649,164	1,197,446,319	564,548,606	337,849,545	965,969,410	29,836,377	1,965,791,469
Financial liabilities											
Due to banks	6,987,742	-	-	-	-	-	-	-	-	-	6,987,742
Due to customers	10,234,860,414	4,107,420,041	1,757,051,591	2,005,962,924	335,258,724	-	-	-	-	-	2,029,167,134
Other borrowings	-	-	-	-	-	-	-	-	-	-	-
	10,241,848,156	4,107,420,041	1,757,051,591	2,005,962,924	335,258,724	-	-	-	-	-	2,036,154,876
Total Interest Rate sensitivity gap	7,090,584,670	683,047,575	1,335,103,575	122,756,230	1,924,390,440	1,197,446,319	564,548,606	337,849,545	965,969,410	29,836,377	(70,363,407)

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%	(91,769,689)
-1%	95,493,161

AS AT 31ST DECEMBER,

38 Risk management (Continued)

38.4 Market risk (Continued)

Interest Rate sensitivity gap analysis as at 31 December 2021

	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	437,135,965	144,095,828	-	-	-	-	-	-	-	-	173,568,061
Balances with Central Bank of Sri Lanka	111,707,246	-	-	-	-	-	-	-	-	-	30,569,620
Placements with financial institutions	1,204,596,236	1,204,596,236	-	-	-	-	-	-	-	-	-
Financial assets at amortized cost	3,135,778,563	123,367,510	75,000,000	75,000,000	-	1,366,411,053	550,000,000	-	946,000,000	-	-
Financial assets measured at FVOCI	5,972,039,071	2,109,270,654	2,092,702,893	1,463,996,200	279,123,980	-	-	-	-	-	23,337,945
Gross loans and advances to customers	2,442,816,156	870,080,409	390,782,715	223,559,108	325,295,152	266,312,253	19,506,799	20,482,050	31,412,092	23,273,817	36,097,800
	19,276,112,308	6,560,681,291	4,651,188,501	3,226,551,509	883,543,113	1,632,723,306	569,506,799	20,482,050	977,412,092	23,273,817	263,573,426
Financial liabilities											
Due to banks	142,333,613	-	-	-	-	-	-	-	-	-	58,996,455
Due to customers	5,670,667,846	2,714,941,497	369,943,246	1,016,119,458	334,893,549	-	-	-	-	-	871,015,835
Other borrowings	1,103,202,948	1,103,202,948	-	-	-	-	-	-	-	-	-
	6,916,204,407	3,818,144,445	369,943,246	1,016,119,458	334,893,549	-	-	-	-	-	930,012,290
Total Interest Rate sensitivity gap	12,359,907,902	2,742,536,846	4,281,245,255	2,210,432,051	548,649,564	1,632,723,306	569,506,799	20,482,050	977,412,092	23,273,817	(666,438,864)

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

Increase/ (decrease) in interest rate	Sensitivity to profit before tax Rs.
+1%	(120,854,783)
-1%	128,212,337

AS AT 31ST DECEMBER,

38 Risk management (Continued)

38.4 Market risk (Continued)

38.4.2 Foreign exchange risk

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

Foreign 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.

	2022	2021
Net Open Position (USD)	**1,886,047**	957,584

Please refer Note 8.2 foreign currency advances and Note No 15 foreign currency deposits balance as at 31 December 2022.

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 2022, Bank carried a USD equivalent NOP/ Unhedged "Overbrought" position of LKR 14.2Bn. The impact of exchange rate risk given below ;

As at 31st December	**2022**	2021
Net Exposure - USD Equivalent	**1,886,047**	957,584
Value of Position in LKR	**693,122,272**	194,370,400
Exchange Rate (USD/LKR) as at 31st December	**367.50**	202.98
Possible Potential Loss to Bank		
- If Exchange Rate (USD/LKR) Depreciates by 1% - LKR	**6,931,223**	1,943,704
- If Exchange Rate Depreciates by 10% - LKR	**69,312,227**	19,437,040
- If Exchange Rate Depreciates by 20% - LKR	**138,624,455**	38,874,080

38.5 Liquidity risk

Introduction

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

38.5.1 Liquidity risk mitigation, monitoring and reporting

Global Asset Liability Committee (Global ALCO), Head Office, Pakistan is the forum to oversee liquidity risk management of the Bank. Global ALCO has responsibility for ensuring that the '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 38.5.2 for maturity analysis of assets and liabilities as at 31 December 2022.

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

AS AT 31ST DECEMBER,

38 Risk management (Continued)

38.5 Liquidity risk (Continued)

38.5.2 Analysis of financial assets and liabilities by remaining contractual maturities

The table below summarizes the contractual maturity profile of the undiscounted cash flows of the Bank's financial assets and liabilities as at 31st December 2022. Balances due within 12 months are equal to their carrying value as the impact of discounting is not significant.

As at 31 December 2022	Carrying Value	On Demand (less than 15 Days)	15 Days to 3 Months	3 Months to 12 Months	Over 1 Year	Total 2022
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Assets						
Cash and cash equivalents	2,706,589,911	2,706,589,911	-	-	-	2,706,589,911
Balances with Central Bank of Sri lanka	110,918,346	110,918,346	-	-	-	110,918,346
Reverse repurchase agreements		-	-	-	-	-
Placements with financial institutions	2,121,871,689	2,121,871,689	-	-	-	2,121,871,689
Financial assets at amortized cost	3,168,144,983	-	551,746,302	943,801,917	1,672,596,764	3,168,144,983
Financial assets measured at FVOCI	4,154,908,262	117,847,168	1,147,156,390	2,707,772,286	182,132,418	4,154,908,262
Loans and advances to customers	5,069,999,633	1,624,477,933	1,393,252,473	736,794,114	1,315,475,114	5,069,999,634
Total financial assets	17,332,432,824	6,681,705,047	3,092,155,165	4,388,368,317	3,170,204,296	17,332,432,825
Liabilities						
Due to banks	6,987,742	6,987,742	-	-	-	6,987,742
Due to customers	10,234,860,414	6,136,587,176	1,757,051,591	2,341,221,647	-	10,234,860,414
Total financial liabilities	10,241,848,156	6,143,574,918	1,757,051,591	2,341,221,647	-	10,241,848,156

As at 31 December 2021	Carrying Value	On Demand (less than 15 Days)	15 Days to 3 Months	3 Months to 12 Months	Over 1 Year	Total 2021
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Assets						
Cash and cash equivalents	437,135,965	437,135,965	-	-	-	437,135,965
Balances with Central Bank of Sri Lanka	111,707,246	111,707,246	-	-	-	111,707,246
Placements with financial institutions	1,204,596,236		1,204,596,236	-	-	1,204,596,236
Financial assets at amortized cost	3,135,778,563	-	198,367,510	75,000,000	2,862,411,053	3,135,778,563
Financial assets measured at FVOCI	5,972,039,071	2,109,270,654	2,092,702,893	1,743,120,180	26,945,344	5,972,039,071
Total financial assets	10,861,257,082	2,658,113,864	3,495,666,640	1,818,120,180	2,889,356,397	10,861,257,082
Liabilities						
Due to banks	142,333,613	142,333,613	-	-	-	142,333,613
Due to customers	5,670,667,846	3,318,943,166	1,000,711,675	1,351,013,006	-	5,670,667,846
Other borrowings	1,103,202,948	500,000	1,102,702,948	-	-	1,103,202,948
Total financial liabilities	6,916,204,407	3,461,776,778	2,103,414,623	1,351,013,006		6,916,204,407

AS AT 31ST DECEMBER,

38 Risk management (Continued)

38.5 Liquidity risk (Continued)

38.5.3 Contingency funding plan

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

38.6 Operational risk management (ORM)

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

ORM strategy and policies

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

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

ORM risk structure

The key players involved in ORM at HBLSL are:

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

ORM mitigation, monitoring and reporting

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

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

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

Use of insurance for the purpose of mitigating operational risk

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

Outsourced activities

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

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

AS AT 31ST DECEMBER,

38 Risk management (Continued)

38.6 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

HBLSL has not suffered any Operational Losses during the year ended 31st December 2022.

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

39 Capital structure

HBLSL has not issued any capital instruments and capital is supported by Head office in the form of Assigned Capital. Please refer Note 20 for the Assigned Capital.

40 Going Consern

The directors have made an assessment of the Bank's ability to continue as a going consern, and being satisfied that it has the resources to continue in business in the foreseeable future. Furthermore, Directors are not aware of any material uncertainities that may cast significant doubt upone the Bank's ability to continue as going consern. therefore the financial staements continued to be prepared on a going consern basis.

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 Legal claims

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

41.2 During the period Bank recognized liability of Rs. 2,300,000 against pending legal case, Total provision as of 31.12.2022 Rs. 4,850,163. "Abid Shervani vs Habib Bank Ltd" filed by ex employee for reinstatement with Back wages or "Substantial Compensation" for termination of employment and loss of career.

42 Events after the reporting date

No material events have taken place since 31st December 2022 that require disclosure or/and adjustments in these financial statements.

Key Regulatory Ratios - Capital and Liquidity

Ratio	31-Dec-22	31-Dec-21
Regulatory Capital (LKR '000)		
Common Equity Tier 1	**5,876,267**	6,229,717
Tier 1 Capital	**6,910,397**	6,289,322
Total Capital	**6,016,977**	6,279,278
Regulatory Capital Ratios (%)		
Common Equity Tier 1 Capital Ratio *(Minimum Requirement-7%)*	**54.13%**	106.46%
Tier 1 Capital Ratio *(Minimum Requirement - 8.5%)*	**54.13%**	106.46%
Total Capital Ratio *(Minimum Requirement - 12.5%)*	**55.42%**	107.30%
Leverage Ratio *(Minimum Requirement - 3%)*	**30%**	43%
Regulatory Liquidity		
Statutory Liquid Assets (LKR'000)	**9,615,021**	8,488,738
Statutory Liquid Assets Ratio *(Minimum Requirement -20%)*	**170%**	84.23%
Domestic Banking Unit (%)	**170%**	84.23%
Off-Shore Banking Unit (%)	**44%**	125.69%
Liquidity Coverage Ratio (%) – Rupee *(Minimum Requirement -90%)*	**597%**	3440.00%
Liquidity Coverage Ratio (%) – All Currency (*Minimum Requirement - 90%)*	**767%**	782.90%

Basel III Computation of Capital Ratios

Item	Period 31.12.2022	Period 31.12.2021
Common Equity Tier 1 (CET1) Capital after Adjustments	**5,876,267**	**6,229,717**
Common Equity Tier 1 (CET1) Capital	**6,910,397**	**6,289,322**
Equity Capital (Stated Capital)/Assigned Capital	4,938,390	4,938,391
Reserve Fund	115,929	85,226
Published Retained Earnings/(Accumulated Retained Losses)	1,851,919	1,261,426
Published Accumulated Other Comprehensive Income (OCI)	4,158	4,279
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	**1,034,130**	**59,605**
Goodwill (net)		-
Intangible Assets (net)		-
Deferred tax assets (net)		-
Amount due to head office & branches outside Sri Lanka in Sri Lanka Rupees	(521)	(401)
Amount due from head office & branches outside Sri Lanka in Foreign Currency (net)	1,034,651	60,006
Additional Tier 1 (AT1) Capital after Adjustments		-
Additional Tier 1 (AT1) Capital		-
Qualifying Additional Tier 1 Capital Instruments		-
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties		-
Total Adjustments to AT1 Capital		-
Investment in Own Shares		-
Others (specify)		-
Tier 2 Capital after Adjustments	**140,710**	**49,561**
Tier 2 Capital	**140,710**	**49,561**
Qualifying Tier 2 Capital Instruments		-
Revaluation Gains	48,311	48,311
Loan Loss Provisions	92,399	1,250
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by third parties		-
Total Adjustments to Tier 2		-
Investment in Own Shares		-
Others (specify)		-
CET1 Capital	**5,876,267**	**6,229,717**
Total Tier 1 Capital	**6,229,717**	**6,289,322**
Total Capital	**6,016,977**	**6,279,278**