DEUTSCHE BANK AG – COLOMBO BRANCH
FINANCIAL STATEMENTS AND
BASEL III DISCLOSURES
FOR THE YEAR ENDED
31ST DECEMBER 2018

DEUTSCHE BANK AG – COLOMBO BRANCH

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DEUTSCHE BANK AG – COLOMBO BRANCH
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31ST DECEMBER 2018

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(Chartered Accountants)
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INDEPENDENT AUDITOR'S REPORT

TO THE MANAGEMENT OF DEUTSCHE BANK AG – COLOMBO BRANCH

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Deutsche Bank AG – Colombo Branch ("the Branch"), which comprise the Statement of Financial Position as at December 31, 2018, and the Income Statement, Statement of 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 03 to 56.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Branch as at December 31, 2018, 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 information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not 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.

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.

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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.

A further description of the auditor's responsibilities for the audit of the financial statements is located at Sri Lanka Accounting and Auditing Standards website at: http://slaasc.com/auditing/auditorsresponsibility.php. This description forms part of our auditor's report.

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Branch.

Chartered Accountants
Colombo, Sri Lanka
30th May 2019

DEUTSCHE BANK AG - COLOMBO BRANCH
INCOME STATEMENT

For the year ended 31st December	Note	2018 Rs.	2017 Rs.
Interest Income		2,283,201,845	2,609,927,378
Interest Expenses		531,083,102	563,073,411
Net Interest Income	5	**1,752,118,743**	**2,046,853,967**
Fee and commission income		562,491,617	645,078,516
Fee and commission expenses		15,236,938	22,277,740
Net Fee and Commission Income	6	**547,254,678**	**622,800,776**
Net gain from trading	7	720,427,812	624,143,145
Net other operating income	8	68,754,666	24,063,875
Total operating income		**3,088,555,899**	**3,317,861,763**
Impairment Reversal/ (Charge)	9	409,053	(1,018,812)
Net operating income		**3,088,964,952**	**3,316,842,951**
Personnel expenses	10	425,405,159	393,345,987
Depreciation and amortization expenses	22	26,041,113	27,091,040
Other expenses	11	1,427,320,741	1,364,327,873
Operating profit before VAT & NBT on Financial Services		**1,210,197,939**	**1,532,078,052**
Value Added Tax (VAT) on financial services		185,513,321	252,120,838
Nation Building Tax (NBT) on financial services		24,854,612	33,530,078
Operating profit after VAT & NBT on Financial Services		**999,830,006**	**1,246,427,136**
Income tax expenses	12	561,659,537	780,294,696
Profit for the year		**438,170,468**	**466,132,440**

The annexed notes to the Financial Statements form an integral part of these Financial Statements.

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DEUTSCHE BANK AG - COLOMBO BRANCH
STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st March	Note	2018 Rs.	2017 Rs.
Profit for the year		438,170,468	466,132,440
Items that will be reclassified to income statement			
Exchange differences on translation of foreign operations		-	-
Net gains/(losses) on cash flow hedges		-	-
Net gains/(losses) on investments in debt instruments measured at fair value through other comprehensive income		(66,842,592)	17,125,202
Impairment charge/(reversal) relating Sri Lanka Development Bonds		(2,503,404)	-
Share of profits of associates and joint ventures Debt instruments at fair value through other comprehensive income		-	-
Others (specify)		-	-
Less: Tax expense relating to items that will be reclassified to income statement		5,174,919	(332,511)
		(64,171,078)	**16,792,691**
Items that will not be reclassified to income statement			
Gains/(Loss) on translating the Financial Statements of FCBU		359,841,648	(15,829,860)
Change in fair value on investments in equity instruments designated at fair value through other comprehensive income		-	-
Related tax		-	-
Change in fair value attributable to change in the Bank's own credit risk on financial liabilities designated at fair value through profit or loss		-	-
Re-measurement of post-employment benefit obligations		(1,729,943)	17,779,027
Related tax		484,384	(4,978,128)
Changes in revaluation surplus		-	-
Share of profits of associates and joint ventures Others (specify)		-	-
Less: Tax expense relating to items that will not be reclassified to income statement		-	-
		358,596,089	**(3,028,961)**
Other comprehensive income for the year, net of taxes		**294,425,011**	**13,763,730**
Total other comprehensive income for the year, net of taxes		**732,595,479**	**479,896,170**

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DEUTSCHE BANK AG, COLOMBO BRANCH
STATEMENT OF FINANCIAL POSITION

As at 31st December	Note	2018 Rs.	2017 Rs.
Assets			
Cash and Cash Equivalents	14	67,662,700	178,378,495
Balances with Central Bank	15	2,607,526,990	649,920,855
Placements with Banks	16	3,200,611,741	3,165,118,777
Placements with Branches	17	3,659,242,958	596,457,397
Derivative financial instruments	18	7,553,987	3,178,672
Group Balances Receivables	19	2,382,315,191	2,511,985,788
Financial assets at amortized cost/ Loans and Receivables to Customers	20	11,977,224,364	9,524,056,819
Financial assets measured at fair value through other comprehensive income/ Financial Investments - Available for Sale	21	15,299,739,626	16,383,164,818
Property, Plant and Equipment	22	50,388,409	64,775,501
Deferred tax assets	23	24,824,126	17,249,204
Other assets	24	1,838,959,597	890,880,411
Total Assets		**41,116,049,689**	**33,985,166,737**
Liabilities			
Due to Banks	25	-	714,546,575
Due to Branches	26	11,773,090,094	7,905,931,041
Derivative financial instruments	27	5,582,806	4,265,960
Financial liabilities at amortized cost/Due to Other Customers	28	15,331,658,192	11,560,749,665
Employee Benefits	29	113,989,061	104,147,958
Current tax liabilities	30	586,021,807	580,598,357
Other liabilities	31	422,929,060	405,875,664
Group Balance Payable	32	2,181,840,805	1,338,834,728
Total liabilities		**30,415,111,825**	**22,614,949,948**
Equity			
Assigned capital	33	4,410,461,270	4,410,461,270
Statutory reserve fund	34	641,508,689	619,600,166
Retained earnings	35	1,126,451,683	2,152,607,128
Other reserves	36	4,522,516,220	4,187,548,223
Total shareholders' equity		**10,700,937,862**	**11,370,216,787**
Total equity and liabilities		**41,116,049,689**	**33,985,166,737**
Contingent liabilities and commitments	37	**22,663,852,082**	**30,918,560,429**
Memorandum Information			
Number of Employees		90	98
Number of Branches		1	1

Note: Amounts stated are net of impairment and depreciation.

The annexed notes to the Financial Statements form an integral part of theses Financial Statements.

The Management is responsible for the preparation and presentation of these Financial Statements.

Approved and signed for and on behalf of the Management :

Vikas Arora

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Head of Cash and Trade/designated CCO
Vikas Arora
30 May 2019
Colombo

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Head of Finance
Evelyn Mohamed

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DEUTSCHE BANK AG - COLOMBO BRANCH
STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December 2018

	Assigned capital	Reserves						Total equity
		Statutory Reserve fund	OCI Reserve	Retained Earnings	Exchange equalization of capital	Exchange equalization of reserve	Reserve through contributed assets	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at 1st January 2017	4,410,461,270	595,653,499	(4,827,828)	3,756,059,097	282,583,011	165,617,101	3,743,212,907	12,948,759,057
Total comprehensive income for the year								
Profit/(loss) for the year (net of tax)	-	-	-	466,132,440	-	-	-	466,132,440
Other comprehensive income (net of tax)								-
Changes in Fair value of AFS	-	-	17,125,202	-	-	-	-	17,125,202
Actuarial gain in defined benefits plans	-	-	-	17,779,027	-	-	-	17,779,027
Gain/(Loss) on translating the Financial statement FCBU	-	-	-	-	26,823,764	(42,653,424)	-	(15,829,860)
Tax on other comprehensive income	-	-	(332,511)	(4,978,128)	-	-	-	(5,310,639)
Total comprehensive income for the year	-	-	16,792,691	478,933,339	26,823,764	(42,653,424)	-	479,896,170
Transactions with equity holders, recognized directly in equity								
Transfers to reserves during the period	-	23,946,667	-	(23,946,667)	-	-	-	-
Profit transferred to Head Office	-	-	-	(2,058,438,641)	-	-	-	(2,058,438,641)
Total transactions with equity holders	-	23,946,667	-	(2,082,385,308)	-	-	-	(2,058,438,641)
Balance as at 31st December 2017	4,410,461,270	619,600,166	11,964,863	2,152,607,128	309,406,775	122,963,677	3,743,212,907	11,370,216,787
Balance as at 1st January 2018	4,410,461,270	619,600,166	11,964,863	2,152,607,128	309,406,775	122,963,677	3,743,212,907	11,370,216,787
Adjustment on initial application of SLFRS 09								
Re-instatement of OCI reserve in FCBU Financial Statements	-	-	6,712,755	(6,712,755)	-	-	-	-
Reversal of impairment provision as per LKAS 39	-	-	-	94,021,878	-	-	-	94,021,878
Recognition of ECL provision as per SLFRS 09	-	-	35,010,757	(43,183,055)	-	(2,426,085)	-	(10,598,382)
Adjusted balance as of 1st January 2018	4,410,461,270	619,600,166	53,688,375	2,196,733,196	309,406,775	120,537,593	3,743,212,907	11,453,640,282
Total comprehensive income for the year								-
Profit/(loss) for the year (net of tax)	-	-	-	438,170,468	-	-	-	438,170,468
Other comprehensive income (net of tax)	-	-	-	-	-	-	-	-
Changes in fair value of AFS	-	-	(66,842,592)	-	-	-	-	(66,842,592)
Impairment of FVTOCI Investments	-	-	(2,503,404)	-	-	-	-	(2,503,404)
Actuarial loss in defined benefits plan	-	-	-	(1,729,943)	-	-	-	(1,729,943)
Tax on other comprehensive income	-	-	5,174,919	484,384	-	-	-	5,659,303
Gain /Loss translating the financial statements of the FCBU	-	-	-	-	214,227,630	145,614,017	-	359,841,648
Total comprehensive income for the year	-	-	(64,171,078)	436,924,910	214,227,630	145,614,017	-	732,595,479
Transactions with equity holders, recognized directly in equity								
Transfers to reserves during the year	-	21,908,523	-	(21,908,523)	-	-	-	-
Profit transferred to Head Office	-	-	-	(1,485,297,899)	-	-	-	(1,485,297,899)
Gain/(loss) on revaluation of Property, Plant and Equipment (if cost method is adopted)	-	-	-	-	-	-	-	-
Total transactions with equity holders	-	21,908,523	-	(1,507,206,422)	-	-	-	(1,485,297,899)
Balance as at 31st December 2018	4,410,461,270	641,508,689	(10,482,703)	1,126,451,683	523,634,406	266,151,610	3,743,212,907	10,700,937,862

Figures in brackets indicate deductions

The Branch has initially applied SLFRS 15 and SLFRS 9 at 1 January 2018. It has applied SLFRS 15 using the cumulative effect method, under which the comparative information is not restated. It has also taken advantage of the exemption in paragraph 7.2.15 of SLFRS 9 from restating prior periods in respect of SLFRS 9's classification and measurement (including impairment) requirements.

The annexed notes to the Financial Statements form an integral part of these Financial Statements

DEUTSCHE BANK AG - COLOMBO BRANCH
STATEMENT OF CASH FLOW

For the year ended 31st December	Note	2018 Rs.	2017 Rs.
Cash Flows from Operating Activities			
Profit before taxation		999,830,006	1,246,427,136
Adjustment for:			
Non-cash items included in profits before tax	39	943,168,909	850,827,034
Interest expense on subordinate debts		-	15,333,371
Change in operating assets	40	(7,229,252,482)	5,600,558,605
Change in operating liabilities	41	6,843,284,648	(3,889,150,859)
Dividend income		(2,515,500)	(2,171,250)
Net unrealised gain/(loss) from translation of Financial statements of Foreign Operation		357,415,563	(15,829,860)
Cash generated from operating activities		**1,911,931,144**	**3,805,994,177**
Contribution paid to defined benefit plans		(10,747,460)	(6,139,204)
Income tax paid		(517,450,589)	(361,362,412)
Net cash generated from operating activities		**1,383,733,095**	**3,438,492,561**
Cash Flows from Investing Activities			
Purchase of Property, Plant and Equipment		(11,666,491)	(15,632,394)
Dividend received from investment		2,515,500	2,171,250
Net cash used in investing activities		**(9,150,991)**	**(13,461,144)**
Cash Flows from Financing Activities			
Interest and subordinated debt paid		-	(1,381,987,629)
Profit transfer to head office		(1,485,297,899)	(2,058,438,641)
Net cash used in financing activities		**(1,485,297,899)**	**(3,440,426,270)**
Net decrease in Cash & Cash Equivalents		(110,715,795)	(15,394,853)
Cash and Cash Equivalents at the beginning of the year		178,378,495	193,773,348
Cash and Cash Equivalents at the end of the year (Note 14)		**67,662,700**	**178,378,495**

1. REPORTING ENTITY

1.1 Reporting entity

Deutsche Bank AG ("Group") is a public quoted company incorporated in Germany with limited liability, which carries out banking activities in Sri Lanka through Deutsche Bank AG, Colombo Branch ("Branch"). The registered office of Deutsche Bank AG, Colombo Branch and the principle place of business are both located at No 86, Galle Road, Colombo 03, Sri Lanka.

1.2 Principal activities

The principal activities of the Branch continued to be banking and related activities such as accepting deposits, corporate banking, offshore banking, foreign currency operations, trade services, Trust & Domestic Custody services, Investment Banking etc.

1.3 Number of employees

The permanent staff strength of the Branch as at 31 December 2018 is 66. (2017 - 70)

2. BASIS OF PREPARATION

2.1 Statement of compliance

The financial statements of the Branch have been prepared in accordance with Sri Lanka Accounting Standards (LKAS) prefixed both SLFRS and LKAS, promulgated by the Institute of Chartered Accountants of Sri Lanka (ICASL) and comply with the requirements of the Banking Act No 30 of 1988 and amendments thereto.

2.2 Management Responsibility on Financial Statements

The Management of the Branch is responsible for preparing and presenting these financial statements in accordance with Sri Lanka Accounting Standard.

These Financial Statements include the following components:

- an Income Statement and Statement of Comprehensive Income providing the information on the financial performance of the Branch for the year ;
- a Statement of Financial Position providing the information on the financial position of the Branch as at the year-end ;
- a Statement of Changes in Equity depicting all changes in shareholders' funds during the year;
- a Statement of Cash Flows providing the information to the users, on the ability of the Branch to generate cash and cash equivalents and the needs of entities to utilize those cash flows ;
- Notes to the Financial Statements comprising Accounting Policies and other explanatory information.

2.3 Approval of Financial Statements by the Management

These Financial Statements were authorized for issue by the Management on 30th May 2019.

2.4 Basis of measurement

The Financial Statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

Item		**Basis of Measurement**	**Note**	**Page**
Financial Instruments				
As per LKAS 39	**As per SLFRS 9**			
Assets held-for-trading	Financial assets measured at fair value through profit or loss	Fair Value	3.5.1.2.3	17
Derivative assets and derivative liabilities held for risk management	Derivative assets and derivative liabilities held for risk management	Fair Value	3.5.1.2.3 & 3.5.3.2.2	17 & 25
Financial assets available-for-sale	Financial Assets measured at fair value through other comprehensive income	Fair Value	3.5.1.2.2	17
Non-financial assets/liabilities				
Defined benefit obligations	Defined benefit obligations	Present value of the defined benefit pension obligation less the net total of the pension assets	3.8	32

The Branch maintains separate books for Domestic Banking Unit (DBU) and Foreign Currency Banking Unit (FCBU). Accompanying financial statements have been prepared by consolidating the financial statements of the Domestic Banking Unit and Foreign Currency Banking Unit.

2.5 Basis of consolidation

The Branch's Financial Statements comprise the amalgamation of the Financial Statements of the Domestic Banking Unit (DBU), the Off-Shore Banking Unit (FCBU). Both units have a common financial year which ends on December 31.

2.6 Presentation of Financial Statements

The assets and liabilities of the Branch presented in the Statement of Financial Position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern.

No adjustments have been made for inflationary factors affecting the Financial Statements.

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 liabilities simultaneously. Income and expenses are not offset in the Statement of Profit or Loss and Other Comprehensive Income unless required or permitted by an Accounting Standard or interpretation, and as specifically disclosed in the Accounting Policies of the Branch.

2.7 Materiality and Aggregation

Each material class of similar items is presented separately in the financial statements. Items of dissimilar nature or function are presented separately unless they are immaterial as permitted by Sri Lanka Accounting Standard – LKAS 1 on 'Presentation of Financial Statements'.

2.8 Comparative Information

The comparative information is reclassified wherever necessary to conform with the current year's presentation in order to provide better presentation.

2.9 Use of estimates and judgments

The preparation of financial statements in conformity with LKAS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Judgments and estimates are based on historical experience and other factors, including expectations that are believed to be reasonable under the circumstances. Hence actual results may differ from those estimates and judgmental decisions.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

2.9.1 Judgments

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the consolidated financial statements is included in the following notes.

Applicable to year 2018 only

— Note 3.4.1.2 classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial assets are Solely Payment of Principal and Interest (SPPI) on the principal amount outstanding

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— Note 3.4.2 establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of Expected Credit Loss (ECL) and selection and approval models used to measure ECL

Applicable to years 2018 and 2017

— Going Concern: the directors have made an assessment of the Branch's ability to continue as a going concern and are satisfied that it has the resources to continue in business for the foreseeable future

2.9.2 Assumptions and estimation uncertainties

Information about assumptions and estimation certainties that have a significant risk of resulting in a material adjustment included in the following notes:

Applicable to year 2018 only

Note 3.5.2 : impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward looking information.

Applicable to years 2018 and 2017

Note 3.5.4 : determination of the fair value of financial instruments with significant unobservable inputs.

Note 3.8 : measurement of defined benefit obligations: key actuarial assumptions.

Note 3.4.1.b: recognition of deferred tax assets: availability of future taxable profit against which carry forward tax losses can be utilized.

Note 3.9 : recognition and measurement of contingencies: key assumptions about the likelihood and magnitude of an outflow of resources.

2.10 Changes in Accounting Policies

The Branch has consistently applied the accounting policies as set out in Notes 03 on pages 14 to 37 to all periods presented in these financial statements, except for the changes arising out of transition to SLFRS 15 " Revenue from Contracts with Customers" and SLFRS 9 – 'Financial Instruments 'explained below:

2.10.1 SLFRS 15 – "Revenue from Contracts with Customers"

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. New qualitative and quantitative disclosure requirements aim to enable financial statements users to understand the nature, amount, timing and uncertainty of revenue, and cash flows arising from contracts with customers.

Entities will apply five step model to determine when to recognize revenue and at what amount. The model specified that revenue is recognized when or as an entity transfers control of goods and services to a customer at the amount to which the entity expects to be entitled.

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Depending on whether certain criteria are met, revenue is recognized. It replaces existing revenue recognition guidance, including LKAS 18 – "Revenue" and LKAS 11 – "Construction Contracts" and IFRIC 13 – "Customer Loyalty Programs".

2.10.2 SLFRS 9 – "Financial Instruments"

The Branch has adopted SLFRS 9 – "Financial Instruments", issued in July 2014, with a date of initial application of 1 January 2018. The requirements of SLFRS 9 represent a significant change from LKAS 39 –"Financial Instruments: Recognition and Measurement." The new Standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities. The key changes to the Branch's accounting policies resulting from its adoption of SLFRS 9 are summarized below.

2.10.2.1 Classification of financial assets and financial liabilities

SLFRS 9 contains three principal classification categories for financial assets – i.e., measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing LKAS 39 categories of held to maturity, loans and receivables and available for sale.

The SLFRS 9 classification is generally based both the business model used for managing the financial assets and the contractual cash flow characteristics of the financial asset.

SLFRS 9 largely retains the existing requirements in LKAS 39 for the classification of financial liabilities. However, although under LKAS 39, all fair value changes of liabilities designated under the fair value option were recognized in profit or loss, under SLFRS 9 fair value changes are generally presented as follows: The amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in Other Comprehensive Income; and The remaining amount of change in the fair value is presented in profit or loss.

2.10.2.2 Impairment of financial assets

SLFRS 9 replaces the "incurred loss" model in LKAS 39 with an "expected credit loss" model. The new impairment model applies to all financial assets and also to certain loan commitments and financial guarantee contracts but not to equity investments. Under SLFRS 9, credit losses are recognized earlier than under LKAS 39.

2.10.3 Transition

Changes in accounting policies resulting from the adoption of SLFRS 9 have been applied retrospectively, except as described below: Comparative periods have not been restated.

In order to recognize the impact on transition the Branch has adopted the modified retrospective approach.

Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of SLFRS 9 are recognized in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of SLFRS 9 and therefore is not comparable to the information presented for 2018 under SLFRS 9.

2.10.3.1 Impact on adoption of SLFRS 9 "Financial Instruments" to the Financial Statements

The following table summarizes the impact, net of tax, of transition to SLFRS 9 – "Financial Instruments" on reserves and retained earnings as at 1 January 2018.

	Retained earnings (LKR)	Available-for sale-reserve (LKR)
Closing balance as per LKAS 39 (31 December 2017)	2,152,607,128	11,964,863
Impact on reclassification and measurements	87,309,123	6,712,755
Impact on recognition of expected credit losses		
Financial assets at amortised cost	(4,683,184)	-
Financial assets at FVOCI	(35,010,757)	35,010,757-
Inter-bank placements	(145,013)	-
Contingent Liabilities & Commitments	(3,344,101)	-
Opening balance as per SLFRS 9 initial application (1 January 2018)	2,196,733,196	53,688,375

2.10.3.2 Classification of financial assets and financial liabilities on the date of initial application of SLFRS 9 – "Financial Instruments

The following table shows the original measurement categories as per LKAS 39 – "Financial Instruments: Recognition and Measurement" and the new measurement categories as per SLFRS 9 – "Financial Instruments" along with their carrying amounts for each class of the Branch's financial assets and financial liabilities as at 1 January 2018.

Item	Note	Original classification as per LKAS 39	New classification as per SLFRS 9	Original carrying amount as per LKAS 39 (LKR)	New carrying amount as per SLFRS 09 (LKR)
Loans and Advances	20	Loans and Receivable from Customers	Financial assets at amortized cost	9,524,056,819	9,575,012,903
Financial investments - AFS	25	Financial Investments - Available for Sale	Financial assets measured at fair value through other comprehensive income	16,383,164,818	16,383,164,818
Placements with banks	16	Placements with Banks	Placements with Banks	3,165,118,777	3,164,973,764

3. SIGNIFICANT ACCOUNTING POLICIES

The Branch has consistently applied the accounting policies set out below to all period presented in these Financial Statements.

3.1 Foreign currency transactions

3.2 Transactions in foreign currencies are translated to the respective functional currencies of the Branch at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in profit or loss, Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

3.3 Translation of Measurement Currency

The Branch uses Sri Lankan Rupees as their measurement currency for Domestic Banking Unit and United State Dollars as their measurement currency for Foreign Currency Banking Unit books.

For consolidation purposes accompanying Financial Statements have been prepared in Sri Lankan Rupees after converting the Foreign Currency Banking Unit financial statements into Sri Lankan Rupees.

The translation is performed based on the guidelines in LKAS 21 "The Effects of Changes in Foreign Exchange Rates" stated below:

- All assets and liabilities (i.e. including comparatives) are translated at the closing rate of each reporting date
- Income and expense items for all periods (i.e. including comparatives) are translated at average exchange rates pertaining to each period
- Equity items other than the net profit or loss for the period are translated at the historical rate existing at the date of each transaction

All exchange differences resulting from translation in accordance with the above are recognized in Other Comprehensive Income.

3.4 Taxation

3.4.1 Income Tax Expenses

Income tax expense comprises current and deferred tax. It is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Penalties related to income taxes, including uncertain tax treatments, are accounted for under LKAS 37 Provisions, Contingent Liabilities and Contingent Assets.

a) Current Taxation

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

Current tax assets and liabilities are offset only if certain criteria are met.

According to Inland Revenue Act, provision for taxation is made on the basis on the accounting profit for the year as adjusted for taxation purpose in accordance with the provision of the applicable Inland Revenue Act. In estimating tax computation, the branch had applied the provisions Inland Revenue Act No.10 of 2006 and the amendments there to until 31st March 2018 and the provision of the Inland Revenue Act No 24 of 2017 and the amendments thereto, have been applied i.e. 1st April 2018. – Applicable Income tax Rate is 28 %.

b) Deferred Taxation

Deferred tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the future asset can be utilized. Deferred tax assets are reduced to the extent that is no longer probable that the related tax benefit will be realized.

3.4.2 Other taxes

a) Crop Insurance Levy (CIL)

As per the provision of the section 14 of the finance Act No.12 of 2013, the CIL was introduced with effect from April 01, 2013 and is payable to the Nation Insurance Trust Fund, Currently, the CIL is payable at 1% of the profit after tax.

b) Value Added Tax on Financial Services (VAT)

The value base for the computation of value added tax on financial services is calculated by adjusting the depreciation computed on rates prescribed by Department of Inland Revenue to the accounting profit before Income tax and emoluments payable. Emoluments payable include benefits in money and not in money including contribution or provision relating to terminal benefits.

c) Nation Building Tax on Financial Services (NBT)

With effect from January 01, 2014 NBT of 2% was introduced on supply on financial services via an amendments to the NBT Act No.09, of 2009. NBT is charged on the same basis used for calculation of VAT on financial services as explained above.

The amount of Value Added Tax and NBT charged in determining the profit or loss for the period is given in the profit or loss.

d) Economic Service Charge (ESC)

As per provision of the Economic Service Charge (ESC) Act No.13 of 2006 and subsequent amendments thereto, ESC is payable on aggregate turnover of the Branch at 0.5% and is deductible from Income tax payable.

e) Debt Repayment Levy (DRL)

A Levy of 7% is charged monthly o the value addition attributable to the supply of financial services commencing from 01st October 2018 and ending on 31st December 2021.

ASSETS AND BASES OF THEIR VALUATION

3.5 Financial Instruments - Classification, Initial Recognition and Subsequent Measurement Financial Assets and Liabilities

3.5.1 Financial assets

3.5.1.1 Recognition and measurement

The financial asset is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction cost that are directly attributable to its acquisition. Loans and advances are initially recognized on the date at which they are originated at fair value which is usually the loan amount granted and subsequent measurement is at amortized cost.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

All other financial assets are initially recognized on the trade date at which the Branch becomes a party to the contractual provisions of the instrument.

3.5.1.2 Classification

Policy applicable after 1 January 2018

On initial recognition, the Branch classifies financial assets as measured at:
- Amortized cost,
- Fair value through other comprehensive income (FVOCI); and
- Fair value through profit or loss (FVTPL)

3.5.1.2.1 Financial assets measured at amortized costs

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 (explained in Note 3.4.1.3) whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3.5.1.2.2 Financial assets at fair value through other comprehensive income

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:
- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3.5.1.2.3 Financial assets at fair value through profit or loss

All financial assets other than those classified at amortized costs or FVOCI are classified as measured at FVTPL.

Financial assets are mandatorily fair valued through profit and loss when the instruments

- are held for trading, or
- are managed, evaluated and reported internally on a fair value basis, or
- designation eliminates or significantly reduces an accounting mismatch which would otherwise arise, or
- Contains an embedded derivative that significantly modifies the cash flows which would otherwise have been required under the contract.

3.5.1.3 Business model assessment

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

- how the performance of the portfolio is evaluated and reported to the Branch's Management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Branch's stated objective for managing the financial assets is achieved and how cash flows are realized.

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

In assessing whether the contractual cash flows are solely payments of principal and interest, the Branch considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

In making the assessment, the Branch considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Branch's claim to cash flows from
- specified assets; and
- Features that modify consideration of the time value of money.

Policy applicable before 1 January 2018

At the inception, a financial asset is classified and measured at fair value and classified as follows:

Loans and receivables – Loans include originated and purchased non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not classified as financial assets at fair value through profit or loss, held-to-maturity or financial assets AFS. An active market exists when quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. Loans are initially recognized at their transaction price representing the fair value, which is the cash amount advanced to the borrower. In addition, the net of direct and incremental transaction costs and fees are included in the initial carrying amount of loans. These loans are subsequently measured at amortized cost using the effective interest method less impairment.

Financial Instruments Held to maturity – Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and a fixed maturity that the Branch has the positive intention and ability to hold to maturity and which are not classified as financial assets at fair value through profit or loss, loans or financial assets AFS.

Held-to-maturity investments are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortized cost using the effective interest method. Subsequent to the acquisition date, the Branch assesses whether there is objective evidence of impairment in line with the policies described in the section entitled "Impairment of Loans and Provision for Off-Balance Sheet provisions". If a held-to-maturity investment is considered impaired, then an impairment loss is recognized in the profit or loss.

Fair value through profit or loss – The Branch classifies certain financial assets and financial liabilities as either held for trading or designated at fair value through profit or loss. They are carried at fair value and presented as financial assets at fair value through profit or loss and financial liabilities at fair value through profit or loss, respectively. Related realized and unrealized gains and losses are included in net gains (losses) on financial assets/liabilities at fair value through profit or loss. Interest on interest earning assets such as trading loans and debt securities are presented in interest and similar income for financial instruments at fair value through profit or loss.

Financial Assets Classified as Available for Sale Financial - assets that are classified as AFS are initially recognized at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. The amortization of premiums and accretion of discount are recorded in net interest income. Financial assets classified as AFS are carried at fair value with the changes in fair value reported in other comprehensive income.

3.5.1.4 Reclassification

Policy applicable after 1 January 2018

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

Policy applicable before 1 January 2018

The Branch classified its financial assets into one of the following categories:

- Loans and receivable
- Held-to-maturity
- Available for sale and
- At fair value through profit or loss , and within this category as :
- held-for-trading : or
- designated as at fair value through profit or loss

3.5.1.5 De-recognition of financial assets

Financial assets are derecognized when the contractual right to receive cash flows from the asset has expired; or when Branch has transferred its contractual right to receive the cash flows of the financial assets, and either –

- Substantially all the risks and rewards of ownership have been transferred; or
- Branch has neither retained nor transferred substantially all the risks and rewards, but has not retained control of the financial asset.

3.5.1.6 Modifications of financial assets

Policy applicable from 1 January 2018

When the terms of a financial asset are renegotiated or modified and the modification does not result in de-recognition, a gain or loss is recognized in the income statement as the difference between the original

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contractual cash flows and the modified cash flows discounted at the original effective interest rate. The modified financial asset will continue to accrue interest at its original EIR.

Noncredit related or commercial renegotiations where an obligor has not experienced a significant increase in credit risk since origination, and has a readily exercisable right to early terminate the financial asset results in derecognition of the original agreement and recognition of a new financial asset based on the newly negotiated commercial terms.

For credit related modifications (i.e., those modifications due to significant increase in credit risk since inception) or those where the obligor does not have the readily exercisable right to early terminate, the Branch assesses whether the modified terms result in the financial asset being significantly modified and therefore derecognized. This assessment includes a quantitative assessment of the impact of the change in cash flows from the modification of contractual terms and additionally where necessary a qualitative assessment of the impact of the change in the contractual terms. Where these modifications are not concluded to be significant, the financial asset is not derecognized and is accounted for as a modification as described above.

If the changes are concluded to be significant, the old instrument is derecognized and a new instrument recognized. Where a modification results in a new financial asset being recognized, the date of the modification is the date of initial recognition of the new financial asset. The Branch then recognizes a credit loss allowance based on 12-month expected credit losses at each reporting date.

3.5.1.7 Cash and cash equivalents

Cash and cash equivalents include notes and coins in hand, unrestricted balances held with the Central Banks of Sri Lanka and highly liquid financial assets with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Branch in the management of its short-term commitments.

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

3.5.1.8 Statutory deposits with Central Bank

The Monetary Law Act requires that all commercial banks operating in Sri Lanka to maintain reserves against all deposit liabilities denominated in Sri Lankan Rupees. The details of reserve requirements are given in Note 15 to the Financial Statements.

3.5.1.9 Derivatives

Derivatives are used to manage exposures to interest rate, foreign currency, credit and other market price risks, including exposures arising from forecast transactions. All freestanding contracts that are considered derivatives for accounting purposes are carried at fair value on the statement of financial position regardless of whether they are held for trading or non-trading purposes.

Changes in fair value on derivatives held for trading are included in net gains/ (losses) from financial instruments at fair value through profit or loss on financial assets/liabilities at fair value through profit or loss.

3.5.2 Identification and measurement of impairment

3.5.2.1 Recognition of impairment of financial assets

Policy applicable after 1 January 2018

The Branch recognizes loss allowances for Expected Credit Losses (ECL) on the following financial instruments that are not measured at FVTPL:
— Financial assets that are debt instruments;
— Financial guarantee contracts issued; and
— Loan commitments issued

No impairment loss is recognized on equity investments.

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

— Debt investment securities that are determined to have low credit risk at the reporting date; and
— Other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

The Branch considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of "investment grade'. 12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

The Branch recognizes loss allowance using Expected Credit Losses (ECL) on loans and receivables to customers and other financial assets measured at amortized cost model using dual measurement approach which the loss allowance is measured as either 12-month expected credit losses or lifetime expected credit losses. 12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognized are referred to as "stage 1 Financial Instruments".

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a life-time ECL is recognized but which are not credit-impaired are referred to as "stage 2 Financial Instruments", and credit impaired are referred to as "stage 3 Financial Instruments.

Measurement of impairment of financial assets

ECL are a probability-weighted estimate of credit losses. They are measured as follows:
— Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Branch expects to receive);
— Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
— Undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Branch if the commitment is drawn down and the cash flows that the Branch expects to receive; and
— Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Branch expects to recover.

Collective assessment:

This includes all loans and advances of smaller value where there is no evidence of impairment and those individually assessed for which no evidence of impairment has been specifically identified on an individual basis.
These loans and advances are grouped together as per Basel Guidelines and product level according to their credit risk characteristics for the purpose of calculating an estimated collective impairment.

— In making an assessment of whether an investment in debt instrument is credit-impaired, the Branch considers the following factors:
— The market's assessment of creditworthiness as reflected in the bond yields.
— The rating agencies' assessments of creditworthiness.
— The country's ability to access the capital markets for new debt issuance.
— The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
— The international support mechanisms in place to provide the necessary support as "lender of last resort" to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Restructured financial assets

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

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

3.5.2.2 Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

— Financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
— Loan commitments and financial guarantee contracts: generally, as a provision;
— Where a financial instrument includes both a drawn and an undrawn component, and the Branch cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Branch presents a combined loss allowance for both components: The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
— Debt instruments measured at FVOCI: no loss allowance is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized in the fair value reserve.

Policy applicable before 1 January 2018

3.5.2.3 Impairment of Loans and Provision for Off-Balance Sheet Positions

The Branch first assesses whether objective evidence of impairment exists individually for loans that are individually significant. It then assesses collectively for loans that are not individually significant and loans which are significant but for which there is no objective evidence of impairment under the individual assessment.
To allow management to determine whether a loss event has occurred on an individual basis, all significant counterparty relationships are reviewed periodically. This evaluation considers current information and events related to the counterparty, such as the counterparty experiencing significant financial difficulty or a breach of contract, for example, default or delinquency in interest or principal payments.

If there is evidence of impairment leading to an impairment loss for an individual counterparty relationship, then the amount of the loss is determined as the difference between the carrying amount of the loan(s), including accrued interest, and the present value of expected future cash flows discounted at the loan's original effective interest rate or the effective interest rate established upon reclassification to loans, including cash flows that may result from foreclosure less costs for obtaining and selling the collateral. The carrying amount of the loans is reduced by the use of an allowance account and the amount of the loss is recognized in the profit or loss as a component of the provision for credit losses.

The collective assessment of impairment is to establish an allowance amount relating to loans that are either individually significant but for which there is no objective evidence of impairment, or are not individually significant but for which there is, on a portfolio basis, a loss amount that is probable of having occurred and is reasonably estimable. The loss amount has three components. The first component is an amount for transfer and currency convertibility risks for loan exposures in countries where there are serious doubts about the ability of counterparties to comply with the repayment terms due to the economic or political situation prevailing in the respective country of domicile. This amount is calculated using ratings for country risk and transfer risk which are established and regularly reviewed for each country in which the Branch does business. The second component is an allowance amount representing the incurred losses on the portfolio of smaller-balance homogeneous loans, which are loans to individuals and small business customers of the private and retail business. The loans are grouped according to similar credit risk characteristics and the allowance for each group is determined using statistical models based on historical experience. The third component represents an estimate of incurred losses inherent in the group of loans that have not yet been individually identified or measured as part of the smaller-balance homogeneous loans. Loans that were found not to be impaired when evaluated on an individual basis are included in the scope of this component of the allowance.

Once a loan is identified as impaired, although the accrual of interest in accordance with the contractual terms of the loan is discontinued, the accretion of the net present value of the written down amount of the loan due to the passage of time is recognized as interest income based on the original effective interest rate of the loan.

At each balance sheet date, all impaired loans are reviewed for changes to the present value of expected future cash flows discounted at the loan's original effective interest rate. Any change to the previously recognized impairment loss is recognized as a change to the allowance account and recorded in the profit or loss as a component of the provision for credit losses.

When it is considered that there is no realistic prospect of recovery and all collateral has been realized or transferred to the Group, the loan and any associated allowance is charged off (the loan and the related allowance are removed from the balance sheet). Individually significant loans where specific loan loss provisions are in place are evaluated at least quarterly on a case-by-case basis. For this category of loans, the number of days past due is an indicator for a charge-off but is not a determining factor. A charge-off will only take place after considering all relevant information, such as the occurrence of a significant change in the borrower's financial position such that the borrower can no longer pay the obligation, or the proceeds from the collateral are insufficient to completely satisfy the current carrying amount of the loan.

For collectively assessed loans, which are primarily mortgages and consumer finance loans, the timing of a charge-off depends on whether there is any underlying collateral and the Branch's estimate of the amount collectible and the legal requirements in the jurisdiction in which the loan is originated.

Subsequent recoveries, if any, are credited to the allowance account and are recorded in the profit or loss as a component of the provision for credit losses.

The process to determine the provision for off-balance sheet positions is similar to the methodology used for loans. Any loss amounts are recognized as an allowance in the Balance Sheet within provisions and charged to the profit or loss as a component of the impairment on loan losses.
If in a subsequent period the amount of a previously recognized impairment loss decreases and the decrease is due to an event occurring after the impairment was recognized, the impairment loss is reversed by reducing the allowance account accordingly. Such reversal is recognized in profit or loss.

Critical Accounting Estimates – The accounting estimates and judgments related to the impairment of loans and provision for off-balance sheet positions is a critical accounting estimate because the underlying assumptions used for both the individually and collectively assessed impairment can change from period to period and may significantly affect the Branch's results of operations.

In assessing assets for impairments, management judgment is required, particularly in circumstances of economic and financial uncertainty, such as those of the recent financial crisis, when developments and changes to expected cash flows can occur both with greater rapidity and less predictability. The actual amount of the future cash flows and their timing may differ from the estimates used by management and consequently may cause actual losses to differ from reported allowances.

For those loans which are deemed to be individually significant, the determination of the impairment allowance often requires the use of considerable judgment concerning such matters as local economic conditions, the financial performance of the counterparty and the value of any collateral held, for which there may not be a readily accessible market.

The determination of the allowance for portfolios of loans of smaller balance homogenous loans and for those loans which are individually significant but for which no objective evidence of impairment exists is calculated using statistical models. Such statistical models incorporate numerous estimates and judgments. The Group performs a regular review of the models and underlying data and assumptions covering all entities. The probability of defaults, loss recovery rates and judgments concerning ability of borrowers in foreign countries to transfer the foreign currency necessary to comply with debt repayments, amongst other things, are incorporated into this review.

3.5.2.4 Write-off of financial assets

The Branch writes off a loan or an investment debt security, and any related allowances for impairment losses, when Branch determines that the loan or security is uncollectible. This determination is made after considering information such as the occurrence of significant changes in the borrower's/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardized loans, write-off decisions generally are based on a product-specific past due status.

3.5.3 Financial liabilities

3.5.3.1 Recognition and measurement of financial liabilities

Policy applicable before 1 January 2018

Deposits, borrowing from foreign multilateral, bilateral sources and domestic sources, debt securities issued and subordinated liabilities are initially recognized on the date at which they are originated. A financial liability is measured initially at fair value plus, transaction costs that are directly attributable to its acquisition or issue. Subsequent measurement of financial liability is at fair value or amortized cost. The amortized cost of a financial liability is the amount at which the financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount.

Policy applicable after 1 January 2018

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

- Financial liabilities at amortized cost; and
- Financial liabilities at fair value through profit or loss,

3.5.3.2 Classification and subsequent measurement of financial liabilities

The subsequent measurement of financial liabilities depends on their classification.

3.5.3.2.1 Financial liabilities at amortized cost

Financial liabilities measured at amortized cost include long-term and short-term debt issued which are initially measured at fair value, which is the consideration received, net of transaction costs incurred. Repurchases of issued debt in the market are treated as extinguishments and any related gain or loss is recorded in the Consolidated Statement of Income. A subsequent sale of own bonds in the market is treated as a reissuance of debt. Financial liabilities measured at amortized cost are recognized on a settlement date basis.

3.5.3.2.2 Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include Trading Liabilities, Financial Liabilities Designated at Fair Value through Profit or Loss and Non-Participating Investment Contracts ("Investment Contracts"). They are carried at fair value with realized and unrealized gains and losses included in net gains (losses) on financial assets and liabilities at fair value through profit or loss. However under SLFRS 9, for financial liabilities designated at fair value through profit and loss the fair value movements attributable to the Branch's own credit component for fair value movements is recognized in Other Comprehensive Income rather than in the Statement of Income.

Financial liabilities classified at fair value through profit or loss are recognized or derecognized on trade date. Trade date is the date on which the Branch commits to issue or repurchase the financial liability.
Interest on interest paying liabilities are presented in interest expense for financial instruments at fair value through profit or loss.

Trading Liabilities - Financial liabilities are classified as held for trading if they have been originated or incurred principally for the purpose of repurchasing them in the near term. Trading liabilities consist primarily of derivative liabilities (including certain loan commitments) and short positions. This also includes loan commitments that are allocated to the other business model and that are classified as derivatives held for trading.

Financial Liabilities Designated at Fair Value through Profit or Loss - Certain financial liabilities that do not meet the definition of trading liabilities are designated at fair value through profit or loss using the fair value option. To be designated at fair value through profit or loss, financial liabilities must meet one of the following criteria: (1) the designation eliminates or significantly reduces a measurement or recognition inconsistency; (2) a group of financial liabilities is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy; or (3) the instrument contains one or more embedded derivatives unless: (a) the embedded derivative does not significantly modify the cash flows that otherwise would be required by the contract; or (b) it is clear with little or no analysis that separation is prohibited.

3.5.3.3 Deposits

Deposits are the Branch's sources of debt funding.

Deposits include non-interest bearing deposits, savings deposits, term deposits and deposits redeemable at call. Borrowings include repurchase borrowings, call and time deposits, Vostro balances and borrowings from financial institutions.

Subsequent to initial recognition deposits, debt securities issued are measured at their amortized cost using the effective interest method, except where the Branch designates liabilities at fair value through profit or loss.

3.5.3.4 De-recognition of Financial Liabilities

Branch derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

3.5.4 Determination of Fair Value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an arm's length transaction (orderly transaction) between market participants at the measurement date. The fair value of instruments that are quoted in active markets is determined using the quoted prices where they represent those at which regularly and recently occurring transactions take place. The Branch measures certain portfolios of financial assets and financial liabilities on the basis of their net risk exposures when the following criteria are met:

- the group of financial assets and liabilities is managed on the basis of its net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty, in accordance with a documented risk management strategy,
- the fair values are provided to key management personnel, and
- the financial assets and liabilities are measured at fair value through profit or loss.

This portfolio valuation approach is consistent with how the Branch manages its net exposures to market and counterparty credit risks.

Critical Accounting Estimates – The Branch uses valuation techniques to establish the fair value of instruments where prices quoted in active markets are not available. Therefore, where possible, parameter inputs to the valuation techniques are based on observable data derived from prices of relevant instruments traded in an active market. These valuation techniques involve some level of management estimation and judgment, the degree of which will depend on the price transparency for the instrument or market and the instrument's complexity.

In reaching estimates of fair value management judgment needs to be exercised. The areas requiring significant management judgment are identified, documented and reported to senior management. The specialist model validation and valuation control groups focus attention on the areas of subjectivity and judgment.

The level of management judgment required in establishing fair value of financial instruments for which there is a quoted price in an active market is usually minimal. Similarly there is little subjectivity or judgment required for instruments valued using valuation models which are standard across the industry and where all parameter inputs are quoted in active markets.

The level of subjectivity and degree of management judgment required is more significant for those instruments valued using specialized and sophisticated models and where some or all of the parameter inputs are less liquid or less observable. Management judgment is required in the selection and application of appropriate parameters, assumptions and modelling techniques. In particular, where data are obtained from infrequent market transactions then extrapolation and interpolation techniques must be applied. Where no market data are available for a particular instrument then pricing inputs are determined by assessing other relevant sources of information such as historical data, fundamental analysis of the economics of the transaction and proxy information from similar transactions, and making appropriate adjustment to reflect the actual instrument being valued and current market conditions. Where different valuation techniques indicate a range of possible fair values for an instrument then management has to decide what point within the range of estimates appropriately represents the fair value. Further, some valuation adjustments may require the exercise of management judgment to achieve fair value.

Under SLFRS, the financial assets and liabilities carried at fair value are required to be disclosed according to the inputs to the valuation method that are used to determine their fair value. Specifically, segmentation is required between those valued using quoted market prices in an active market (level 1), valuation techniques based on observable parameters (level 2) and valuation techniques using significant unobservable parameters (level 3). Management judgment is required in determining the category to which certain instruments should be allocated. This specifically arises when the valuation is determined by a number of parameters, some of which are observable and others are not. Further, the classification of an instrument can change over time to reflect changes in market liquidity and therefore price transparency.

3.5.4.1 Fair Value Hierarchy

The financial instruments carried at fair value have been categorized under the three levels of the SLFRS fair value hierarchy as follows:

Level 1 – Instruments valued using quoted prices in active markets are instruments where the fair value can be determined directly from prices which are quoted in active, liquid markets and where the instrument observed in the market is representative of that being priced in the Branch's inventory.

Level 2 – Instruments valued with valuation techniques using observable market data are instruments where the fair value can be determined by reference to similar instruments trading in active markets, or where a technique is used to derive the valuation but where all inputs to that technique are observable.

Level 3 – Instruments valued using valuation techniques using market data which is not directly observable are instruments where the fair value cannot be determined directly by reference to market-observable information, and some other pricing technique must be employed. Instruments classified in this category have an element which is unobservable and which has a significant impact on the fair value.

3.5.5 Recognition of Trade Date Profit

If there are significant unobservable inputs used in the valuation technique, the financial instrument is recognized at the transaction price and any profit implied from the valuation technique at trade date is deferred.

Using systematic methods, the deferred amount is recognized over the period between trade date and the date when the market is expected to become observable, or over the life of the trade (whichever is shorter). Such methodology is used because it reflects the changing economic and risk profile of the instrument as the market develops or as the instrument itself progresses to maturity. Any remaining trade date deferred profit is recognized in the profit or loss when the transaction becomes observable or the Branch enters into off-setting transactions that substantially eliminate the instrument's risk. In the rare circumstances that a trade date loss arises, it would be recognized at inception of the transaction to the extent that it is probable that a loss has been incurred and a reliable estimate of the loss amount can be made.

Critical Accounting Estimates – Management judgment is required in determining whether there exist significant unobservable inputs in the valuation technique. Once deferred, the decision to subsequently recognize the trade date profit requires a careful assessment of the then current facts and circumstances supporting observability of parameters and/or risk mitigation.

As of the reporting date, the Branch does not have any trade date profit reported.

3.5.6 Impairment of non-financial assets

The carrying amounts of the Branch's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets.

Impairment losses are recognized in profit or loss.

3.6 Property, plant and equipment

3.6.1 Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses if any.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Cost also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant or equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property, plant and equipment, and is recognised in other operating income/other overhead expenses in the profit or loss.

3.6.2 Subsequent costs

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

3.6.3 Depreciation

Depreciation is recognised in the profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives for the current and comparative years are as follows:

Item	Useful life (years)
Computer equipment	3 - 5
Office equipment, furniture & fittings, fixtures	5
Safes	5 - 20
Telephone/Tele printer, Air-conditioners	8 - 8
Others	3 - 10

Depreciation of an asset begins when it is available for use and ceases at the earlier of the dates on which the asset is classified as held for sale or is derecognized.
Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

3.6.4 Valuation of Immovable Property kept as collateral on staff loans

The Branch will request the borrower to obtain a valuation report from a certified valuer acceptable to the Branch of immovable properties held by the Branch as collateral in support of staff loans to its employees. Credit decisions of the Branch shall be based upon suitable documents, obtained through valid sources as below;

a) A corporate member of the Institute of Valuers of Sri Lanka (IVSL)
b) A fellow member of the Royal Institute of Chartered Surveyors of the United Kingdom (RICS).
c) Any other member of RICS with 3 years' experience in such grade of membership.
d) Valuers eligible as per the qualifications set out in section 3.8 a), b) and c) above should acquire Continuous Professional Development as approved/recommended by the respective professional body

The Branch has prescribed the necessity of revaluations during below mentioned circumstance;

a) In respect of non-performing loans, to adhere with the conditions stipulated in the Banking Act Directions No. 3 of 2008 on Classification of Loans and Advances, Income Recognition and Provisioning, i.e. facility/ies where the Branch shall obtain an external valuation report once in every 3 years if capital outstanding amount is equal or more than Rs. 5,000,000 or 0.1% of the Branch's capital base, whichever is less.

b) Cost of revaluation shall be borne by the Branch.
In respect of credit facilities granted against residential property which is occupied by the borrower for residential purposes, the Branch shall accept valuation reports not older than 4 years provided the report is originating from a certified valuer acceptable to the Branch.

3.7 PROVISIONS

A provision is recognized in the Financial Position when the Branch has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the net estimate of the consideration required to settle the present obligation as of the reporting date, taking into account the risks and uncertainties surrounding the obligation.

If the effect of the time value of money is material, provisions are discounted and measured at the present value of the expenditure expected to be required to settle the obligation, using a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as interest expense.

When some or all of all the economic benefits required to settle a provision are expected to be recovered from a third party (for example, because the obligation is covered by an insurance policy), an asset is recognized if it is virtually certain that reimbursement will be received.

Critical Accounting Estimates – The use of estimates is important in determining provisions for potential losses that may arise from litigation, regulatory proceedings and uncertain income tax positions. The Branch estimates and provides for potential losses that may arise out of litigation, regulatory proceedings and uncertain income tax positions to the extent that such losses are probable and can be estimated.

3.7.1 Financial guarantees

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

The Group has chosen to apply the fair value option to certain written financial guarantees that are managed on a fair value basis. Financial guarantees that the Branch has not designated at fair value are recognized initially in the financial statements at fair value on the date the guarantee is given. Subsequent to initial recognition, the Branch's liabilities under such guarantees are measured at the higher of the amount initially recognized, less cumulative amortization, and the best estimate of the expenditure required to settle any financial obligation as of the reporting date. These estimates are determined based on experience with similar transactions and history of past losses, and management's determination of the best estimate.

Any increase in the liability relating to guarantees would be recorded in the profit or loss in provision for credit losses.

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3.8 Employee benefits

3.8.1 Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Branch has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

3.8.2 Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for such contributions covering all employees are recognised as an expense in profit and loss when incurred.

3.8.3 Defined benefit plan

a) Retiring Gratuity

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

Gratuity is a defined benefit plan. The Branch accounts for the provision for Defined Benefit Plan – Gratuity in conformity with LKAS 19 – Employee Benefits. However, under the payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of five years of continued service.

The Branch measures the present value of promised retirement benefits of gratuity using the actuarial valuation method as recommended by LKAS 19- Employee Benefits, with the advice of a Consultant Actuary.

The Gratuity liability is not externally funded.

3.8.3.1 Recognition of actuarial gain/ (losses)

The Branch recognizes all actuarial gains and losses arising from defined benefit plans in other comprehensive income in the period in which they arise.

b) Share based payment transactions

Restricted Equity Award (REA)

Branch's compensation structures are designed to provide mechanisms that promote and support long-term performance of its employees and the bank. Whilst a portion of Variable Compensation (VC) is paid upfront, these structures require that an appropriate portion is deferred to ensure alignment to the sustainable performance of the Group.

At the same time, the Branch believes that the use of shares or share-based instruments for deferred VC is an effective way to align compensation with Deutsche Bank's sustainable performance and the interests of shareholders. By using Deutsche Bank shares, the value of the individual's VC is linked to Deutsche Bank's share price over the deferral and retention period.

Whilst ensuring lower compensated employees are not subject to deferrals, the bank's compensation structure ensures an appropriate amount of deferred VC for higher earners. The portion of VC, awarded in Deutsche Bank Group shares, is deferred over a defined period of time and subject to performance conditions and forfeiture provisions. Employees receiving share based deferred compensation awards i.e. Restricted Equity Award (REA) are communicated at the end of the bank's annual compensation review process in March. The employees compensation statement will state the initial value of their REA, typically denominated in local currency. The equity award, is converted into a number of DB Share Units with reference to the relevant year-end exchange rate and DB share price (the "grant price", as determined by the bank). This process occurs centrally, and the accrual is assigned to the relevant entity. This amount is charged to the profit or loss as an expense.

3.9 Commitments and Contingencies

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Branch. The Branch does not recognise contingent assets but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

INCOME AND EXPENDITURE

3.10 Interest income / expense

Interest from all interest bearing assets and liabilities is recognized as net interest income using the effective interest rate method. The effective interest rate is the method of calculating the amortized costs of a financial asset or financial liability and of allocating the interest income or expense over the relevant period using the estimated future cash payments and receipts through the expected life of the financial asset or liability. The estimated future cash flows used in this calculation include those determined by the contractual terms of the asset or liability, all fees that are considered to be integral to the effective interest rate, direct and incremental transaction costs attributable to the acquisition of the financial assets or liability and all other premiums and discounts.

When financial assets are reclassified from trading or available for sale to loans a new effective interest rate is established on the fair value on the date of reclassification and on the best estimate of future expected cash flows.

3.11 Fee and Commission income / expense

The recognition of fee revenue (including commissions) is determined by the purpose for the fees and the basis of accounting for any associated financial instruments. If there is an associated financial instrument, fees that are an integral part of the effective interest rate of that financial instrument are included within the effective yield calculation. However, if the financial instrument is carried at fair value through profit or loss, any associated fees are recognized in profit or loss when the instrument is initially recognized, provided there are no significant unobservable inputs used in determining its fair value. Fees earned from services that are provided over a specified service period are recognized over that service period. Fees earned for the completion of a specific service or significant event are recognized when the service has been completed or the event has occurred.

3.12 Dividends

Dividend income is recognized when the right to receive income is established. Usually this is the ex-dividend date for equity where the Branch receives on its mandatory investments in Lanka Clear (Pvt). Ltd and Credit Information Bureau of Sri Lanka. These are accounted for in other operating income in the profit or loss.

3.13 Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realized and unrealized fair value changes and foreign revaluation exchange differences.

3.14 Profit/loss from sale of Property, plant & equipment

Profit/loss from sale of property, plant and equipment is recognized in the period in which the sale occurred and is classified as other operating income.

3.15 Other expenses

The expenditure incurred on personal cost, premises, equipment and establishment has been apportioned between the FCBU and the DBU based on the volume of transactions.

3.16 Lease payments

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

3.17 CASH FLOW STATEMENT

The cash flow statement has been prepared by using the "Indirect Method" of preparing of cash flow statement in accordance with the LKAS 7, Cash Flow Statements.

Net unrealized gains/ (losses) from translation of Financial Statements of foreign operation are adjusted through cash flows from operating activities.

3.18 Segment Reporting

An operating segment is a component of the Branch that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Branch's other components, whose operating results are reviewed regularly by the *Management Committee* to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

These include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, Group expenses, and tax assets and liabilities.

The following business segments represent the Group's organizational structure as reflected in its internal management reporting systems as of December 31, 2018.

- Corporate & Investment Banking (CIB)
- Private & Commercial Bank (PCB)
- Deutsche Asset Management (Deutsche AM)

Of the above, only Corporate & Investment Banking (CIB) business is represented in Sri Lanka as at 31st December 2018.

3.18.1 Corporate & Investment Banking (CIB)

The Corporate & Investment Bank (CIB) combines Deutsche Bank's Corporate Finance, Equities and Fixed Income & Currencies, Global Capital Markets, Global Transaction Banking, Institutional Client Group and Research businesses. This new business division was created in the Branch in 2017 with the aim to ensure greater alignment of products and sales efforts, enabling the Branch to deliver a better service to clients and a more focused resource allocation.

3.18.2 Global Transaction Banking (GTB)

Main product offerings: Corporate Cash Management, Trade Finance, Securities Services and GTB FX.

Global Transaction Banking (GTB) is a leading global provider of cash management, trade finance and securities services, delivering the full range of commercial banking products and services for both corporates and institutions worldwide.

3.18.3 Corporate Cash Management (CCM)

CCM provides a wide range of reliable, world-class solutions that help clients improve liquidity and cash flow and optimize their treasury and payment businesses. Deutsche Bank's global cash management services aims to provide companies with effective ways to generate synergies and realize cost-benefits - based on advanced technologies and experienced staff around the globe.

Primary services empower clients to optimize receivables and payables processes, integrate more tightly with their supply chain, forecast working capital needs more effectively, and provide CFOs and treasurers with access to real-time information on the status of their global cash positions and exposures. Drivers of the business are the need for especially large corporates to increase transparency around their payments procedures, enforce strict controls (in line with regulatory requirements) and increase automation and standardization.

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3.18.4 Trade Finance (TF)

Trade Finance delivers fast, efficient, reliable and comprehensive solutions for every stage of a client's trade value chain to support their foreign trade activities. International trade is highly complex and involves a range of risks. Deutsche Bank's Trade Finance teams deliver unparalleled services, innovative solutions and superior trade expertise that enable clients manage risks and other issues associated with their import and export and domestic trade transactions, including international trade products and financial supply chain management.

3.18.5 Securities Services (SeS)

SeS offers the provision of custodian services for the securities portfolios of both cross-border/offshore clients (sub-custody) and onshore/resident clients (domestic custody). Services included are safekeeping of clients' portfolio, settlement of trades, asset servicing (corporate action notices, income processing, income collection, very limited tax services generally restricted to document collation for lower tax treaty rates, entitlements procession, redemptions, exchange offers, rights, etc.), cash services related to their cash settlement balances including preparation of cash projection reports and FX services.

Complementing the custodian function is the Fund Administration and Trustee services which is directed at the unit trust (mutual funds), insurance and asset management industry. Our proprietary systems are capable of generating Net Asset Value (NAV) calculations and financial statements in line with both the Sri Lanka Financial Reporting Standards (SLFRS) and International Financial Reporting Standards (SLFRS).

3.18.6 GTB FX

With the exit of Global Markets (GM) Business from Sri Lanka, in 2016, the GTB FX coverage platform was setup to continue to offer FX services to GTB Clients in Sri Lanka.

The FX Business under GTB has continued as per similar functionality for Global Markets: the same products will be dealt with the same clients with the same systems used and the same support and control functions as earlier with Global Markets. The change comes from the ownership of the FX trading function moving from GM to GTB, with the need for GTB to manage the relevant people, processes and associated Level 1 controls.

3.18.7 Global Capital Markets (GCM)

On the GCM, the key product profile includes voice and electronic FX sales targeting onshore Corporates and Institutional clients. Sourcing of Sri Lanka International Sovereign Bonds for local Commercial Banks is a key area of focus. On the Debt origination space GCM has been mandated as joint book runner for Sri Lanka Sovereign Bond issuances since 2015.

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4. New SLFRS issued and not yet effective

SLFRS 16 – "Leases"

SLFRS 16 eliminates the current dual accounting model for lessees which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there will be a single on-balance sheet accounting model that is similar to current finance lease accounting. SLFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019. The Group is assessing the potential impact on its financial statements.

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For the year ended 31st December

5 Net Interest Income

	2018 Rs.	2017 Rs.
Interest Income		
Placements with Banks	403,267,308	366,670,713
Loans and Advances/Loans and Receivable to Customers	723,802,100	860,934,847
Financial assets measured at fair value through other comprehensive income/ Financial Investments - Available for Sale	1,156,132,438	1,382,321,818
Total Interest Income	**2,283,201,845**	**2,609,927,378**
Interest Expenses		
Due to Banks	267,474,566	103,530,898
Due to depositors/ Due to Other Customers	263,608,536	459,542,513
Total Interest Expenses	**531,083,102**	**563,073,411**
Net Interest Income	**1,752,118,743**	**2,046,853,967**

The amounts reported above include the interest income and expense, calculated using the effective interest method, that relate to the following financial assets and financial liabilities.

Financial Assets measured at amortized cost	11,977,224,364	9,524,056,819
Financial Assets measured at fair value through other comprehensive income	15,299,739,626	16,383,164,818
Total	**27,276,963,990**	**25,907,221,637**
Financial Liabilities measured at amortized cost	**15,331,658,192**	**11,560,749,665**

a. Net interest income from Sri Lanka Government Securities

Interest Income	1,156,132,438	1,382,321,818
Less: Interest expenses	-	-
Net interest income from Sri Lanka Government Securities	**1,156,132,438**	**1,382,321,818**

6 Net Fee and Commission Income

Fee and commission income	562,491,617	645,078,516
Fee and commission expenses	15,236,938	22,277,740
Net Fee and Commission Income	**547,254,678**	**622,800,776**

Fee and Commission income from contracts with customers is measured based on the consideration specified in the contract with customers. Branch recognizes revenue when it transfers control over service to a customer. In the below table, fee and commission income from contracts with customers in the scope of SLFRS 15 is disaggregated by major type of services.

Comprising:		
Trade and remittances	124,696,205	110,552,100
Guarantees	34,285,014	42,112,993
Other Banking Services	403,510,398	492,413,423
Net Fee and Commission Income	**562,491,617**	**645,078,516**

Fee and Commission income from Other Banking Services includes fees and commissions collected from customers by providing global cash management services, custody fees, trustee fees and fund transfer facilities.

7 Net Gain/(Loss) from Trading

Foreign Exchange		
From Banks	664,746,206	723,230,640
From customers	52,617,699	(72,322,352)
Net unrealized forward gain/ (losses)	3,063,906	(21,937,315)
Realized AFS Loss	-	(4,827,828)
Total	**720,427,812**	**624,143,145**

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For the year ended 31st December	2018 Rs.	2017 Rs.
8 Net Other Operating Income		
Dividend Income	2,515,500	2,171,250
Intergroup recoveries (Note 8.a.)	56,093,539	10,766,906
Cost recoveries from customers	10,145,628	11,125,719
Total	**68,754,666**	**24,063,875**

Note 8.a. Intergroup recoveries Deutsche Bank Colombo Branch provides services to the Financial Institutions Sales Desk, as part of Global Transaction Banking (GTB) within the Corporate Banking Investment Division of the Deutsche Bank Group. Revenue resulting from such services provided are included in the Intergroup recoveries income.

9 Impairment Charges/(Reversal)

	2018 Rs.	2017 Rs.
Financial assets at amortised cost - loans and advances (Note 20(c))		
Stage 1	763,501	(16,370,174)
Stage 2	(441,870)	-
Stage 3	-	-
Financial assets measured at fair value through other comprehensive income (Note 21(c))		
Stage 1	(2,503,404)	-
Stage 2	-	-
Stage 3	-	-
Contingent Liabilities & Commitments (Note 37(a))		
Stage 1	(365,828)	19,281,341
Stage 2	(649,768)	-
Stage 3	-	-
Placements with Banks (Note 16)	28,521	-
Provision for Country Risk (Note 31.2)	2,759,797	(1,892,355)
Total	**(409,053)**	**1,018,812**

10 Personnel Expenses

	2018 Rs.	2017 Rs.
Salary and bonus	233,979,023	231,861,523
Contributions to defined contribution plans	60,293,070	49,998,601
Provision for defined benefit obligations (Note 29)	18,858,621	18,079,345
Others/Other allowances and Staff related expenses	112,274,444	93,406,518
Total	**425,405,159**	**393,345,987**

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For the year ended 31st December	2018 Rs.	2017 Rs.
11 Other Expenses		
Auditors' remunerations	900,065	900,000
Audit related expenses	650,229	650,000
Non-audit fees to auditors	656,532	549,015
Professional and legal expenses	3,937,017	3,659,822
Head Office Expenses (Note 11.1)	941,612,677	676,903,693
Office administration and establishment expenses	445,484,709	455,178,187
Provision for penalty	-	209,175,157
Normal NBT related to Non Banking	7,161,670	9,472,333
Debt Repayment Levy (Note 11.2)	23,036,761	-
Crop Insurance Levy (Note 11.3)	3,881,080	7,839,663
Total	1,427,320,741	1,364,327,873

Note 11.1 Head Office expenses

Deutsche Bank Colombo Branch receives services from the Global Financial Institutions Sales Desk and Corporate Banking, as part of Global Transaction Banking (GTB) within the Corporate Banking Investment Division of the Deutsche Bank Group. Expenses related to shared services such as Deutsche Bank networks, domain and for the utilization of the other systems and softwares are also included. Further expenses related to group audit, internal audit and other consultantations are shared between branches by the Group. As such Branch recognized shared services cost under Head Office Expenses.

Note 11.2 Debt Repayment Levy (DRL) on Financial Services

With effect from 01 October 2018, DRL of 7% was introduced on the value addition attributable to the supply of financial services through an amendment to the Finance Act No. 35 of 2018. DRL is chargeable on the same base used for the calculation of VAT on Financial Services before deducting VAT and NBT on Financial Services. The levy will be charged up to 31 December 2021.

Note 11.3 Crop Insurance Levy (CIL)

As per the provisions of the section of the Finance Act No. 12 of 2013, the CIL was introduced with effect from 01st April 2013 and is payable to the National Insurance Trust Fund. Currently CIL is payable at 1% of the profit after tax.

12 Tax Expenses		
Current tax expense		
Current year	535,832,717	564,154,223
Under/(Over) provision for prior years	27,742,440	(75,077,925)
Provision for assessment 2014/2015	-	281,810,855
Deferred tax expense		
Temporary differences	(1,915,620)	9,407,544
Total	561,659,537	780,294,696

a. Reconciliation of tax expenses

Income tax for the year (Accounting profit@ applicable tax rate)	279,952,402	348,999,598
Add: Tax effect of expenses that are not deductible for tax purposes	359,760,619	402,026,465
(Less): Tax effect of expenses that are deductible for tax purposes	(103,880,303)	(186,871,840)
Tax expense for the year	535,832,717	564,154,223

b. The deferred tax (credit)/charge in the income statement comprise of the following

Deferred tax asset originated during the year (Note 23.1)	2,996,057	10,151,974
Deferred tax liability originated during the year (Note 23.2)	(4,911,677)	(744,430)
Deferred tax (credit)/charge to income statement	(1,915,620)	9,407,544

The Branch has applied the provisions of Inland Revenue Act No. 10 of 2006 and amendments thereto for the three months ended 31 March 2018 and the provisions of the Inland Revenue Act No.24 of 2018 for the nine months ended 31 December 2018.

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13 Analysis of Financial Instruments by Measurement Basis

13 a. Analysis of Financial Instruments by Measurement Basis – As at 31st December 2018

Following table provides a reconciliation between line items in the statement of financial position and categories of financial instruments.

Total financial assets	AC Rs.	FVPL Rs.	FVOCI Rs.	Total Rs.
Cash and Cash Equivalents	67,662,700	-	-	67,662,700
Balances with Central Bank	2,607,526,990	-	-	2,607,526,990
Placements with Banks	3,200,611,741	-	-	3,200,611,741
Placements with Branches	3,659,242,958	-	-	3,659,242,958
Derivative financial instruments	-	7,553,987	-	7,553,987
Financial assets at amortized cost/ Loans and Receivables to Customers	11,977,224,364	-	-	11,977,224,364
Financial assets measured at fair value through other comprehensive income/ Financial Investments - Available for Sale	-	-	15,299,739,626	15,299,739,626
Other assets	1,838,959,597	-	-	1,838,959,597
Total	23,351,228,349	7,553,987	15,299,739,626	38,658,521,962

Total financial liabilities	AC Rs.	FVPL Rs.	Total Rs.
Due to Branches	11,773,090,094	-	11,773,090,094
Derivative financial instruments	-	5,582,806	5,582,806
Financial liabilities at amortized cost	15,331,658,192	-	15,331,658,192
Other liabilities	422,929,060	-	422,929,060
Total	27,527,677,346	5,582,806	27,533,260,153

13 b. Analysis of Financial Instruments by Measurement Basis – As at 31st December 2017

Total financial assets	AC Rs.	FVPL Rs.	AFS Rs.	Total Rs.
Cash and Cash Equivalents	178,378,495	-	-	178,378,495
Balances with Central Bank	649,920,855	-	-	649,920,855
Placements with Banks	3,165,118,777	-	-	3,165,118,777
Placements with Branches	596,457,397	-	-	596,457,397
Derivative financial instruments	-	3,178,672	-	3,178,672
Loans and Receivables to Customers	9,524,056,819	-	-	9,524,056,819
Financial Investments - Available for Sale	-	-	16,383,164,818	16,383,164,818
Other assets	890,880,411	-	-	890,880,411
Total	15,004,812,753	3,178,672	16,383,164,818	31,391,156,243

Total financial liabilities	AC Rs.	FVPL Rs.	Total Rs.
Due to Banks	714,546,575	-	714,546,575
Due to Branches	7,905,931,041	-	7,905,931,041
Derivative financial instruments	-	4,265,960	4,265,960
Due to Other Customers	11,560,749,665	-	11,560,749,665
Other liabilities	405,875,664	-	405,875,664
Total	20,587,102,946	4,265,960	20,591,368,905

AC – Financial assets/liabilities measured at amortized cost
AFS – Financial Investments meassured as Available for sale
FVPL – Financial assets/liabilities measured at fair value through profit or loss
FVOCI – Financial assets measured at fair value through other comprehensive income

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13 Analysis of Financial Instruments by Measurement Basis Cont.

13 c. Fair Value Hierarchy

The Following table provides the analyses of assets and liabilities measured at fair value as at the Reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. These amounts were based on the values recognised in the Statement of Financial Position.

As at 31st December 2018	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Financial Assets				
Derivative Financial Instruments	7,553,987	-	-	7,553,987
Financial assets measured at fair value through other comprehensive income/ Financial Investments - Available for Sale				
Treasury Bills	6,288,822,700	-	-	6,288,822,700
Treasury Bonds	1,578,459,245	-	-	1,578,459,245
Sri Lanka Development Bonds	-	7,430,857,682	-	-
Equity Securities	-	-	1,600,000	1,600,000
Financial Assets	**7,874,835,933**	**7,430,857,682**	**1,600,000**	**7,876,435,933**
Financial Liabilities				
Derivative Financial Instruments	5,582,806	-	-	5,582,806
Other Borrowings	-	-	-	-
Financial Liabilities	**5,582,806**	**-**	**-**	**5,582,806**

As at 31st December 2017	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Financial Assets				
Derivative Financial Instruments	3,178,672	-	-	3,178,672
Financial assets measured at fair value through other comprehensive income/ Financial Investments - Available for Sale				
Treasury Bills	7,592,190,000	-	-	7,592,190,000
Treasury Bonds	1,029,183,595	-	-	1,029,183,595
Sri Lanka Development Bonds	-	7,760,191,223	-	7,760,191,223
Equity Securities	-	-	1,600,000	1,600,000
Financial Assets	**8,624,552,267**	**7,760,191,223**	**1,600,000**	**16,386,343,490**
Financial Liabilities				
Derivative Financial Instruments	4,265,960	-	-	4,265,960
Other Borrowings	-	-	-	-
Financial Liabilities	**4,265,960**	**-**	**-**	**4,265,960**

13 d. Assets for Which Fair Value approximates Carrying Value

For the financial assets and financial liabilities with short term maturities, it is assumed that the carrying value approximates

their fair value. Hence fair value hierarchy is not applicable for the said financial assets and financial liabilities.

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As at 31st December

	2018 Rs.	2017 Rs.
14 Cash and Cash Equivalents		
Cash in hand	51,453,402	151,005,509
Balances with Banks	16,209,298	27,372,986
Total	**67,662,700**	**178,378,495**

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

	2018 Rs.	2017 Rs.
15 Balances with Central Banks		
Statutory balances with Central Banks		
Central Bank of Sri Lanka	2,557,516,001	649,920,855
Non-statutory balances with Central Bank		
Central Bank of Sri Lanka	50,010,989	-
Total balances with Central Banks	**2,607,526,990**	**649,920,855**

Balances with Central Bank are carried at amortized cost in the Statement of Financial Position.

Note 15.1 Statutory balances with Central Bank of Sri Lanka

As required by the provisions of Section 93 of Monetary Law Act, a minimum cash balance is maintained with the Central Bank of Sri Lanka. The minimum cash reserve requirement on rupee deposit liabilities is prescribed as a percentage of rupee deposit liabilities. The percentage is varied from time to time. Applicable minimum rate was 6% with effect from 16th November 2018. (minimum rate was 7.5% up to 16th November 2018). During the year, Central Bank introduced averaged 100% margin requirements against letter of credit for importation of motor vehicles of non-essential goods, with effective from 29th September 2018 bearing circular no. 35/01/005/0010/21 and Imports on Document Against Acceptance (DA) terms with effective from 11th October 2018 bearing circular no 2 of 2018. There is no reserve requirement for deposit liabilities of Foreign Currency Banking Unit and foreign currency deposit liabilities in the Domestic Banking Unit.

	2018 Rs.	2017 Rs.
16 Placements with Banks		
Bank of Ceylon	2,750,674,315	-
National Development Bank	450,110,959	10,006,699
The Hong Kong and Shanghai Bank	-	2,001,339,726
Commercial Bank of Ceylon PLC	-	1,000,669,863
Hatton National Bank PLC	-	153,102,489
Provision for Impairment (Note 16.1)	(173,533)	-
Total	**3,200,611,741**	**3,165,118,777**

Placements with Banks are carried at amortized cost in the Statement of Financial Position.

	2018 Rs.	2017 Rs.
Note 16.1 Impairment provision for Placements With Banks		
Recognition of ECL provision under SLFRS 09 as at 01st January 2018	145,013	-
Charge/(Write back) to Income Statement	28,521	-
Closing balance at 31st December	**173,533**	-

	2018 Rs.	2017 Rs.
17 Placements with Branches		
Deutsche Bank AG - Singapore	3,659,242,958	596,457,397
Total	**3,659,242,958**	**596,457,397**

	2018 Rs.	2017 Rs.
18 Derivative Financial Instruments		
Foreign currency derivatives		
Forward foreign exchange contracts	7,553,987	3,178,672
Total	**7,553,987**	**3,178,672**

	2018 Rs.	2017 Rs.
19 Group Balance Receivable		
Branches (Branches of Deutsche Bank AG-Frankfurt)	1,255,752,846	604,788,580
Subsidiaries (Subsidiaries of Deutsche Bank AG-Frankfurt)	1,034,449,360	1,872,649,450
Other Inter-group receivable from Branches and Head Office	92,112,985	34,547,757
	2,382,315,191	**2,511,985,788**

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As at 31st December	2018 Rs.	2017 Rs.
20 Financial Assets at Amortised Cost - Loans and Advances		
Financial Assets at Amortised Cost - Loans and Receivables to Customers		
Gross Loans and Advances	11,982,229,178	9,579,696,087
(-) Provision for Impairment	(5,004,814)	(55,639,268)
Net Loans and Advances	**11,977,224,364**	**9,524,056,819**
20 a. Gross Loans and Advances		
Stage 1	9,723,963,533	8,103,284,441
Stage 2	2,258,265,645	1,476,411,646
Stage 3	-	-
(Less): Accumulated impairment under:		
Stage 1	(5,004,814)	(55,639,268)
Stage 2	-	-
Stage 3	-	-
Net loans and advances	**11,977,224,364**	**9,524,056,819**
20 b. Analysis		
By Product		
Overdrafts	8,281,481,206	6,749,659,940
Trade finance	2,589,637,337	1,607,711,005
Staff loans	203,929,817	175,620,493
Supplier Finance	907,180,818	1,046,704,649
Gross total	**11,982,229,178**	**9,579,696,087**
By Currency		
Sri Lankan Rupee	8,087,856,753	6,439,484,418
United States Dollar	3,573,609,200	3,030,632,680
Euro	320,763,225	109,578,989
Gross total	**11,982,229,178**	**9,579,696,087**
By Industry		
Agriculture and fishing	14,410,239	1,271,898,951
Manufacturing	5,359,883,006	3,839,840,334
Tourism	656,099,716	963,768,232
Transport	198,362,040	200,795,481
Construction	121,656,039	99,225,663
Traders	4,026,707,501	1,476,955,437
New economy	1,520,474,084	1,650,798,324
Financial and Business Services	2,362,706	10,003
Others	82,273,847	76,403,663
Gross total	**11,982,229,178**	**9,579,696,087**
20 c. Movements in impairment during the year		
Stage 1		
Opening balance as at 01st January under LKAS 39	55,639,268	71,397,808
Reversal of impairment provision under LKAS 39	(55,639,268)	-
Recognition of impairment provision as at 01st January under SLFRS 09	4,033,391	-
Charge/(Write back) to Income Statement	763,501	(16,370,174)
Other movements	-	611,634
Closing balance at 31st December	**4,796,892**	**55,639,268**
Stage 2		
Opening balance as at 01st January	649,793	-
Charge/(Write back) to Income Statement	(441,870)	-
Closing balance at 31st December	**207,923**	-
Total	**5,004,814**	**55,639,268**

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As at 31st December	2018 Rs.	2017 Rs.
21 Financial Assets at Fair Value Through Other Comprehensive Income/ Available For Sale		
Sri Lanka Government Securities		
Treasury Bills	6,288,822,700	7,592,190,000
Treasury Bonds	1,578,459,245	1,029,183,595
Sri Lanka Development Bonds	7,430,857,682	7,760,191,223
Equity Instruments (Note 21 a.)	1,600,000	1,600,000
Net Financial Assets at Fair Value Through Other Comprehensive Income	**15,299,739,626**	**16,383,164,818**

Note 21 a. Equity Instruments

At 01 January 2018, Branch designated certain investments shown in the below table as equity securities as at fair value through other comprehensive income. In 2017 these investment were classified as available for sale and measured at cost . The fair value through other comprehensive income was made because the investments are expected to be held for the long term as per regulations imposed in Sri Lanka. However these investments are measured at cost as there is no active market to accertain market value as at year end.

Equity Instruments		
Credit Information Bureau of Sri Lanka '-100 Ordinary shares of Rs.1,000/- each	100,000	100,000
Lanka Clear (Private) Limited '-150,000 Ordinary shares of Rs. 10/- each	1,500,000	1,500,000
	1,600,000	1,600,000

21 b. Analysis

By collateralization		
Unencumbered	15,299,739,626	16,383,164,818
Gross Total	**15,299,739,626**	**16,383,164,818**
By currency		
Sri Lankan Rupee	7,868,881,945	8,622,973,595
United States Dollar	7,430,857,682	7,760,191,223
Gross Total	**15,299,739,626**	**16,383,164,818**

21 c. Movements in impairment during the year

Stage 1		
Opening balance as at 01st January	35,010,757	-
Charge/(Write back) to Other Comprehensive income	(2,503,404)	-
Closing balance at 31st December	32,507,353	-
Total	32,507,353	-

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As at 31st December

22 a. Property, plant & equipment - As at 31st December 2018

	Computer Equipment	EDP Mainframe	Safes	Paintings & Art Objects	Telephone & Telex	Office Equipment	Furniture & Fittings	Total 2018
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Cost								
Opening balance at 1st January 2018	64,742,519	100,700,080	1,876,527	744,000	41,118,648	25,587,419	116,350,028	351,119,221
Additions	11,512,391	-	-	-	-	-	154,100	11,666,491
Disposals	(372,842)	-	-	-	(62,991)	-	(234,500)	(670,333)
Closing balance at 31st December 2018	**75,882,068**	**100,700,080**	**1,876,527**	**744,000**	**41,055,657**	**25,587,419**	**116,269,628**	**362,115,379**
(Less): Accumulated depreciation								
Opening balance at 1st January 2018	57,493,713	75,646,541	1,876,505	743,996	27,656,843	22,137,587	100,788,535	286,343,720
Charge for the year	7,287,839	9,483,650	-	-	3,783,122	1,533,091	3,953,411	26,041,113
Disposals	(372,840)	-	-	-	(50,524)	-	(234,499)	(657,863)
Closing balance at 31st December 2018	**64,408,713**	**85,130,191**	**1,876,505**	**743,996**	**31,389,441**	**23,670,678**	**104,507,447**	**311,726,970**
Carrying value as at 31st December 2018	**11,473,356**	**15,569,889**	**22**	**4**	**9,666,216**	**1,916,741**	**11,762,181**	**50,388,409**

Out of the above depreciation charge of Rs. 26,041,113/- for the year, Rs.1,041,645/- has been apportioned to FCBU. Accordingly Rs. 24,999,469/- was charged to DBU.

The cost of fully depreciated assets which are still in use is Rs. 247,598,779/- as at reporting date.

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As at 31st December

22 b. Property, plant & equipment - As at 31st December 2017

	Computer Equipment	EDP Mainframe	Safes	Paintings & Art Objects	Telephone & Telex	Office Equipment	Furniture & Fittings	Total 2017
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Cost								
Opening balance at 1st January 2017	62,433,713	100,700,080	1,876,527	744,000	31,754,501	25,201,692	115,797,330	338,507,843
Additions	5,135,345	-	-	-	9,364,149	580,201	552,699	15,632,394
Disposals	(2,826,540)	-	-	-	-	(194,476)	-	(3,021,016)
Closing balance at 31st December 2017	**64,742,518**	**100,700,080**	**1,876,527**	**744,000**	**41,118,650**	**25,587,417**	**116,350,029**	**351,119,221**
(Less): Accumulated depreciation								
Opening balance at 1st January 2017	54,873,439	63,297,813	1,858,557	743,996	24,655,054	20,199,846	96,644,969	262,273,674
Charge for the year	5,446,794	12,348,727	17,948	-	3,001,789	2,132,217	4,143,565	27,091,040
Disposals	(2,826,520)	-	-	-	-	(194,474)	-	(3,020,994)
Closing balance at 31st December 2017	**57,493,713**	**75,646,540**	**1,876,505**	**743,996**	**27,656,843**	**22,137,589**	**100,788,534**	**286,343,720**
Carrying value as at 31st December 2017	**7,248,805**	**25,053,540**	**22**	**4**	**13,461,807**	**3,449,828**	**15,561,495**	**64,775,501**

Out of the above depreciation charge of Rs. 27,091,040/- for the year , Rs.1,083,642/- has been apportioned to FCBU . Accordingly Rs. 26,007,398/- was charged to DBU. (Note 11)

The cost of fully depreciated assets which are still in use is Rs. 209,334,193.15/- (2016 - Rs.195,752,474.80/-) as at reporting date.

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As at 31st December

23 Deferred Tax Assets/(Liabilities)

	2018 Rs.	2017 Rs.
Deferred tax assets (Note 23.1)	32,813,751	30,150,506
Deferred tax liabilities (Note 23.2)	(7,989,625)	(12,901,302)
	24,824,126	17,249,204

The movements on the deferred tax account is as follows:

23.1 Deferred tax assets

	2018 Rs.	2017 Rs.
Balance as at the beginning of the year	30,150,506	45,280,607
Originated/(Reversed) during the year - recognised in profit or loss	(2,996,057)	(10,151,974)
Orignated/(reversed) during the year - recognised in other comprehensive income	5,659,303	(4,978,128)
Balance as at the end of the year	32,813,751	30,150,506

23.2 Deferred tax liabilities

	2018 Rs.	2017 Rs.
Balance as at the beginning of the year	12,901,302	13,313,221
Originated/(Reveresed) during the year through profit or loss	(4,911,677)	(744,430)
Originated during the year through other comprehensive income	-	332,511
Balance as at the end of the year	7,989,625	12,901,302

23.3 Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	2018	
	Temporary Difference	Tax Effect
Deferred tax assets		
Employee benefits	113,989,062	31,916,937
Fair Value loss of FVTOCI / AFS Financial Assets	1,864,067	521,939
Provision for Restricted Equity	111,318	31,169
Provision for Cash retention payment	1,227,521	343,706
	117,191,968	32,813,751
Deferred tax liabilities		
Property, plant and equipment	28,534,376	7,989,625
	28,534,376	7,989,625

	2017	
	Temporary Difference	Tax Effect
Deferred tax assets		
Employee benefits	104,147,957	29,161,428
Provision for Restricted Equity	1,327,579	371,722
Provision for Cash retention payment	2,204,841	617,355
	107,680,377	30,150,506
Deferred tax liabilities		
Property, plant and equipment	29,458,293	8,248,322
Fair Value gain of FVTOCI / AFS Financial Assets	16,617,786	4,652,980
	46,076,079	12,901,302

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As at 31st December

	2018	2017
	Rs.	Rs.
24 Other Assets		
Deposits and prepayments	27,103,167	63,062,741
Clearing Account balance (Note 24.1)	1,745,658,444	791,547,966
Others	66,197,986	36,269,704
Total	**1,838,959,597**	**890,880,411**

Note 24.1 - Clrearing account balance

Clearing account balance represents the balance to be received from the other Banks on behlf of the outward cheque clearing and clearing receivable balance from Sampath Bank PLC being the receivable for foreign exchanges transactions.

Receivable from Lanka Clear for cheque clearing	1,735,803,954	658,461,917
FX clearing receivable from Sampath Bank PLC	9,854,490	133,086,049
	1,745,658,444	**791,547,966**

25 Due to Banks		
Borrowings	-	714,546,575
Total		**714,546,575**

26 Due to Branches		
Borrowings	11,773,090,094	7,905,931,041
Total	**11,773,090,094**	**7,905,931,041**

27 Derivative Financial Instruments		
Foreign exchange derivatives		
Forward foreign exchange contracts	5,582,806	4,265,960
Total	**5,582,806**	**4,265,960**

	Rs.	Rs.
28 Financial liabilities at amortised cost/Due to Other Customers		
Due to depositors	15,331,658,192	11,560,749,665
Total	**15,331,658,192**	**11,560,749,665**

28 a. Analysis of amount due to depositors

By product		
Demand deposits (current accounts)	8,203,973,876	7,489,774,397
Savings deposits	2,449,471,403	1,788,848,902
Margin deposits	1,903,244,000	377,859,000
Fixed deposits	2,774,968,913	1,904,267,366
Total	**15,331,658,192**	**11,560,749,665**
By currency		
Sri Lanka Rupee	12,076,725,363	8,006,213,157
United States Dollar	2,869,081,540	2,987,918,411
Great Britain Pound	18,571,784	19,527,813
Euro	361,740,759	531,297,577
Swiss Frank	1,841,519	11,308,826
Others *	3,697,206	4,483,881
Total	**15,331,658,172**	**11,560,749,665**

* Other currencies includes Singapore Dollar, Australian Dollar, Canadian Dollar, Hong Kong Dollar and Janapenese Yen.

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As at 31st December	2018 Rs.	2017 Rs.
29 Employee Benefits		
Opening balance as at 01st January	104,147,958	109,986,844
Provision for the Year **(Note 29.a)**	18,858,621	18,079,345
Actuarial loss/ (gain) during the Year **(Note 29.b)**	1,729,943	(17,779,027)
Gratuity paid during the Year	(10,747,460)	(6,139,204)
Closing balance as at 31st December	**113,989,061**	**104,147,958**
29 a. Provision recognized in the Profit or Loss		
Current Service Cost	12,497,755	5,980,792
Interest on Obligation	6,360,866	12,098,553
	18,858,621	**18,079,345**
29 b. Provision recognized in Other Comprehensive Income		
Actuarial loss/ (gain) during the year	1,729,943	(17,779,027)
	1,729,943	**(17,779,027)**

29 c. Actuarial Valuation

LKAS 19 requires the use of actuarial techniques to make a reliable estimate of the amount of retirement benefit using the Projected Unit Credit Method in order to determine the present value of the retirement benefit obligation. An actuarial valuation was performed on December 2018 by Mr. M. Poopalanathan, AIA, Messrs. Actuarial and Management Consultants (Pvt) Ltd. The following principal assumptions were made in arriving at the retirement obligation as at 31st December 2018.

	2018	2017
Discount Rate %	**11.5%**	**12%**
Future salary increment rate %	**8%**	**8%**

29 d. Sensitivity Ananlysis-Employee Benefits

The below impact analysis is provided for employee benefit liability as at 31 December 2018.

	Present Value of Defined Benefit Obligation	
	1% Increase	**1% Decrease**
Discount Rate	111,281,568	116,896,549
Salary Escalation Rate	117,230,441	110,925,624

The below impact analysis is provided for employee benefit liability as at 31 December 2017.

	Present Value of Defined Benefit Obligation	
	1% Increase	**1% Decrease**
Discount Rate	101,015,043	107,518,291
Salary Escalation Rate	107,848,159	100,659,327

30 Current Tax Liabilities		
Opening balance as at 01st January	580,598,357	278,236,676
Charge for the year	535,832,717	564,154,223
Additional Provision for 2014/15 Asessment	-	281,810,855
Over/under provision adjustment in respect of prior years	27,742,440	(75,077,925)
Payments	(517,450,589)	(361,362,412)
Tax Credits	(40,701,118)	(107,163,060)
Closing balance as at 31st December	**586,021,807**	**580,598,357**

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As at 31st December

	2018 Rs.	2017 Rs.
31 Other Liabilities		
Accrued expenditure	57,816,960	33,714,366
Tax Penalty provision	209,175,157	209,175,157
Provision for Impairment of Commitments and Contingencies (Note 31.1)	2,328,505	38,382,610
Country risk (Note 31.2)	5,325,307	2,565,510
Other tax liability	42,888,497	30,239,615
Other payables	105,394,635	91,798,406
Total	422,929,060	405,875,664

31.1 a. Provision for Impairment Commitments and Contingencies

This provision relates to impairmnt for undrawn commitments and Off balance sheet facilities computed using the relevant credit conversion factors. The impairment relating to Day one adjustment has been reported under retained earnings as at 01st January 2018.

31.1 b. Movements in impairment during the year

Stage 1		
Opening balance as at 01st January under LKAS 39	38,382,610	18,888,303
Reversal of impairment provision under LKAS 39	(38,382,610)	-
Recognition of impairment provision as at 01st January under SLFRS 09	2,648,489	-
Charge/(Write back) to Income Statement	(365,828)	19,281,340
Impact of exchange rates	-	212,967
Closing balance at 31st December	**2,282,661**	**38,382,610**
Stage 2		
Opening balance as at 01st January	695,613	-
Charge/(Write back) to Income Statement	(649,768)	-
Closing balance at 31st December	**45,844**	-
Total	**2,328,505**	**38,382,610**

31.2 b. Provision for country risk

Country Risk is defined as the risk that Deutsche Bank AG-Colombo Branch may suffer a loss due to possible deterioration of economic conditions; political and social upheaval; nationalisation and expropriation of assets; government repudiation of external indebtness; exchange controls or currency depreciation or devaluation in any given country.

31.2 b. Provision for country risk

Balance as at 01 January	2,565,510	4,457,865
During the year charge/ write back	2,759,797	(1,892,355)
Balance as at 31st December	5,325,307	2,565,510

32 Group balance payable

Inter-entity expenses payable to HO and branches	2,143,976,870	1,333,922,756
Branches (Branches of Deutsche Bank AG-Frankfurt)	37,863,935	4,911,972
Total	2,181,840,805	1,338,834,728

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32 Group balance payable Contd.

Deutsche Bank Colombo branch is supported by the Asia Pacific Head office and other entities within Deutsche Bank Group. The charges for such services are re-imbursed by Deutsche Bank Colombo, based on invoices issued by the supplier. However due to the remittance ceiling imposed by the Central Bank of Sri Lanka, the Bank is unable to fully settle its obligation in a given financial year. In order to avoid significant build up of liabilities to head office, part of unremitted liabilities were transferred to equity as "Contributed Assets". Prior to such transfer a confirmation from head office was obtained stating that head office will not demand payment of such liabilities, and the approval of CBSL was also obtained.

As at 31st December	2018 Rs.	2017 Rs.
33 Assigned Capital		
Balance as of 01st January	4,410,461,270	4,410,461,270
Balance as of 31st December	**4,410,461,270**	**4,410,461,270**
34 Statutory Reserve Fund		
Opening balance at 01st January	619,600,166	595,653,499
Transfers during the period	21,908,523	23,946,667
Closing balance at 31st December	**641,508,689**	**619,600,166**

34 a. Five percentage (5%) of the profit after tax is transferred to the reserve fund as per Direction issued by the Central Bank of Sri Lanka under section 76 (j) (1) of the Banking Act No. 30 of 1988 as amended by Banking (Amendment) Act No. 33 of 1995.

35 Retained Earnings	2018 Rs.	2017 Rs.
Opening balance at 01st January	2,152,607,128	3,756,059,097
Adjustments relating to adoption of SLFRS 09	44,126,068	-
Profit for the year	438,170,468	466,132,440
Net acturial gain/loss on defied benefit plan	(1,729,943)	17,779,027
Tax on other comprehensive income	484,384	(4,978,128)
Transfer to/from other reserves	(21,908,523)	(23,946,667)
Profit transferred to Head Office (Note 35. a)	(1,485,297,899)	(2,058,438,641)
Closing balance at 31st December	**1,126,451,683**	**2,152,607,128**

35 a. Profit transfer to Head Office
The retained profit for the year ended 31st December 2016 and 2017, has been transferred to Head Office in 2018, after obtaining approval from the Central Bank of Sri Lanka and the Department of Inland Revenue.

36 Other Reserves

36 a. Year ended 31st December 2018

	Opening balance at 01st January	Initial application of SLFRS 09	Adjusted opening balance at 01st January	Movement/ transfers	Closing balance at 31st December
Exchange equalisation of capital (Note 36. a)	309,406,775	-	309,406,775	214,227,630	523,634,406
Foreign currency translation reserve (Note 36. b)	122,963,677	(2,426,085)	120,537,593	143,187,933	266,151,610
OCI reserve	11,964,863	-	11,964,863	(22,447,566)	(10,482,703)
Reserve through Contributed Assets (Note 36. c)	3,743,212,907	-	3,743,212,907	-	3,743,212,907
Total	**4,187,548,223**	**(2,426,085)**	**4,185,122,138**	**334,967,998**	**4,522,516,220**

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As at 31st December

36 Other Reserves Cont.

36 b. Year ended 31st December 2017

	Rs. Opening balance at 01st January	Rs. Movement/ transfers	Rs. Closing balance at 31st December
Exchange equalisation of capital (Note 36. a)	282,583,011	26,823,764	309,406,775
Foreign currency translation reserve (Note 36. b)	165,617,101	(42,653,424)	122,963,677
OCI reserve	(4,827,828)	16,792,691	11,964,863
Reserve through Contributed Assets (Note 36. c)	3,743,212,907	-	3,743,212,907
Total	**4,186,585,191**	**963,032**	**4,187,548,223**

36. a Exchange Equalisation of Capital

Exchange equalisation of capital represents the appreciation /depreciation of capital maintained in foreign currency due to exchange rate fluctuation. The exchange rate fluctuation is being accounted under exchange equalisation of capital.

36. b Exchange Equalisation of Reserve

Exchange equalisation of reserve represents the effect of currency translation of Income Statement and Reserve Fund.

36. c Reserve through Contributed Assets

As explained in Note 11.1 This is the un remittable head office expenses reported upto end of financial year 2011and 2015, converted to equity during the financial year 2013 and 2016 with the prior written approval of Central Bank of Sri Lanka.

37 Contingent Liabilities and Commitments	**2018**	**2017**
Guarantees	8,342,955,134	7,830,305,505
Letters of credit	1,054,286,060	3,082,335,312
Forward exchange contracts	1,125,714	(234,341)
Usance Import Bills	832,209,929	1,355,304,085
Core accepteance	776,842,290	708,022,486
Other commitments	-	46,000,740
Undrawn loan commitments	11,656,432,956	17,896,826,643
Total	**22,663,852,082**	**30,918,560,429**

37 a. Movements in Impairment during the Year

Opening balance as at 01 January	38,382,610	18,888,303
Reversal of impairment provision under LKAS 39	(38,382,610)	-
Recognition of impairment provision as at 01st January under SLFRS 09	3,344,101	-
Charge/(Write back) to Income Statement	(1,015,596)	19,281,340
Exchange rate variance and other adjustments	-	212,967
Closing balance as at 31 December	2,328,505	38,382,610

37. b Capital expenditure commitments

There were no material capital commitments as at the reporting date.

37. c Litigations against the Branch

There were no pending litigation of material nature against the Bank.

37. (d) Tax Assessment

Last year, the Commissioner General of Inland Revenue issued an assessment notice for the year of assessment 2014/15 on Deutsche Bank AG Colombo Branch pertaining to an additional tax liability on Income Tax due to disallowable head office expenses payable. The assessment is for a value of Rs. 685.3 mn (which includes a penalty of Rs. 228.4 mn). A provision of Rs. 490.9 mn is made in the financials, which includes tax penalty provision of Rs. 209.2 mn.

37. (d). 1. Liability recorded due to tax assessment

Tax Liability (Note 12)	281,810,855	281,810,855
Other Liability (Note 31)	209,175,157	209,175,157
	490,986,012	**490,986,012**

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38. Related party transactions

38.1 Transactions and Balances with Group entities

The Branch carried out transactions in the ordinary course of business on an arm's length basis at commercial rates with parties who are defined as Related Parties as per the Sri Lanka Accounting Standard – LKAS 24 – 'Related Party Disclosures'.

38.1 a. Transactions with Deutsche Bank Group

The Branch engages in Inter-group borrowings and lendings, derivative financial instruments with group entites, tranfer pricing fee receivable from group entity, sale or purchase of investment securities in between group entities, Deutsche Bank AG-Colombo Branch provident fund.

Amount receivable and payable from/to Group entities disclosed in Notes 17, 19, 26 and 32.

38.1 b. Transactions with Provident Fund

According to Sri Lanka Accounting Standard LKAS 24 "Related Party Disclosures", a party is related to the entity if, the party is a post- eomployement benefits plan for the benefits of employees of the Branch.

Name of the related party	Relationship	Nature of Transaction	Value of the Transaction (Rs.) 2018	2017
Deutsche Bank AG Colombo Branch Employees' Provident fund.	Post employment contribution plan for the benefit of employees of the Deutsche Bank AG Colombo.	Payments incurred on behalf of Deutsche Bank AG Colombo Employees' Provident fund.	171,000	171,000
		Banks' Contribution/(Transfer) to Reserve Account	5,140,905	(2,480,534)
		Purchasing of Treasury bill/bond by Deutsche Bank AG Colombo on behalf of Deutsche Bank AG Colombo Employees' Provident fund.	1,445,287,726	912,873,990

Balances with the Deutsche Bank Group

Balances with the Employee's providend fund

			2018 Rs.	2017 Rs.
Deutsche Bank AG Colombo Branch Employees' Provident fund.	Post employment contribution plan for the benefit of employees of the Deutsche Bank AG Colombo.	Cash held in Saving Account	19,443,448	**25,423,128**

38. Related party transactions (cont.)

38.2 Transactions with Key Management Personnel

According to Sri Lanka Financial Reporting Standard (LKAS 24) "Related Party Disclosures", Key Management Personnel are those having authority and responsibility for planning, directing and controlling the activities of the entity. The branch considered the members of its Branch Management Board as KMP with effect from, 01st January 2011 since they have the authority and responsibility for planning, directing and controlling the activities of the branch.

The members of the Branch Management Board of Deutsche Bank AG and their immediate family members have been classified as KMP of the branch as at 31st December 2018.

Immediate family member is defined as spouse or dependent. Dependent is defined as anyone who depends on the respective KMP for more than 50% if his/her financial needs.

The respective KMP for more than 50% if his/her financial needs

	2018 Rs.	2017 Rs.
Compensation to KMP		
Short term employee benefits	193,155,306	148,497,178
Post employment benefits	-	-
Termination benefits	70,817,179	-
Share based payments	913,548	1,564,790
Lending facilities granted to KMP		
Lending facilities granted to KMP	65,461,076	69,628,333
Deposits held by KMP with the branch	-	-

As at 31st December	2018 Rs.	2017 Rs.
39. Non- Cash items included in Profit Before Tax		
Depreciation of property, plant and equipment	26,041,113	27,091,040
Write off of Assets	12,470	22
(Reversal)/ charge of Impairment losses on loans and advances	(1,335,148)	(16,370,174)
Off balance sheet impairment	(1,015,596)	19,281,341
Charge for defined benefit plans	18,858,621	18,079,345
Tax credits/provision for tax penalty	(19,516,065)	209,175,157
Head office Expense	941,612,677	676,903,693
Notional tax grossed under interest income	(21,185,053)	(107,163,060)
Provision for Country risk	2,759,797	1,892,355
Net Unrealized Forward Exchange Loss	(3,063,906)	21,937,315
	943,168,909	**850,827,034**

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As at 31st December	2018 Rs.	2017 Rs.
40. Change in Operating Assets		
Change in derivative financial instruments	1,311,409	-
Change in balance with Central Bank	1,957,606,135	877,751,997
Change in placement with banks	35,492,964	(288,794,092)
Change in placements with branches	3,062,785,561	-
Change in group balance receivable	(129,670,596)	748,699,784
Change in Loans and advances	2,402,328,722	991,474,450
Change in financial investment Available for sale	(1,048,680,900)	2,227,354,328
Change in other assets	948,079,186	1,044,072,138
	7,229,252,482	**5,600,558,605**

41. Change in Operating Liabilities

Change in due to banks	(714,546,575)	714,546,575
Change in deposits from banks, customers and debt securities issued	3,770,908,527	(1,239,420,353)
Change in due to branches	3,867,159,053	-
Change in other liabilities	17,053,396	(53,564,684)
Change in due to Group balance	(98,606,599)	(3,310,712,397)
Derivative financial instruments	1,316,847	-
	6,843,284,648	**(3,889,150,859)**

42. Subsequent Events

Subsequent to the reporting date, no circumstances have arisen which would require adjustment to or disclosure in the financial statements.

43. Management Responsibility on Financial Statements

The management of the Bank is responsible for preparing and presenting these financial statements in accordance with Sri Lanka Accounting Standard.

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DEUTSCHE BANK AG – COLOMBO BRANCH
BASEL III DISCLOSURES
FOR THE YEAR ENDED
31ST DECEMBER 2018

Disclosures required as per Central Bank of Sri Lanka, Bank Supervision Department Circular No. 02 of 2019 dated 18 January 2019, "Publication of Annual and Quarterly Financial Statements and Other Disclosures by Licensed Banks"

Risk exposure for each type of financial instrument and changes from prior year

In Rupees Thousand	As at 31st December 2018				As at 31st December 2017			
	AC	FVPL	FVTOCI	Total	AC	FVPL	FVTOCI	Total
ASSETS								
Cash and cash equivalents	67,663	-	-	67,663	178,378	-	-	178,378
Balances with central banks	2,607,527	-	-	2,607,527	649,921	-	-	649,921
Placements with banks	3,200,612	-	-	3,200,612	3,165,119	-	-	3,165,119
Placements with Branches	3,659,243	-	-	3,659,243	596,457	-	-	596,457
Derivative financial instruments		7,554		7,554	-	3,179	-	3,179
Loans and advances	11,977,224	-	-	11,977,224	9,524,057	-	-	9,524,057
Financial assets measured at fair value through other comprehensive income	-	-	15,299,740	15,299,740	-	-	16,383,165	16,383,165
Other assets	1,838,960	-	-	1,838,960	890,880	-	-	890,880
Total financial assets	**23,351,228**	**7,554**	**15,299,740**	**38,658,522**	15,004,813	3,179	16,383,165	31,391,156

In Rupees Thousand	AC	FVPL	Total	AC	FVPL	Total
LIABILITIES						
Due to banks	-	-	-	714,547	-	714,547
Due to Branches	11,773,090	-	11,773,090	7,905,931	-	7,905,931
Derivative financial instruments	-	5,583	5,583	-	4,266	4,266
Financial liabilities			-			-
- due to depositors	15,331,658	-	15,331,658	11,560,750	-	11,560,750
- due to Debt securities holders	-	-	-	-	-	-
- due to other borrowers	-	-	-	-	-	-
Other liabilities	422,929		422,929	405,876	-	405,876
Total financial liabilities	**27,527,677**	**5,583**	**27,533,260**	**20,587,103**	**4,266**	**20,591,369**

Management's objectives, policies and processes for managing risks:

DB (Deutsche Bank) Colombo's risk management framework

The scope of the risk management framework is the foundation of the internal capital adequacy assessment process (ICAAP) which is embedded in all risk processes and risk decisions of DB Colombo across businesses and infrastructure functions. DB Colombo's ICAAP framework follows the general ICAAP framework of DB Group.

The risk appetite expresses the aggregate level of risk that DB Colombo is willing to assume within its risk capacity to achieve strategic objectives and business plan as defined by a set of minimum quantitative and qualitative statements. Risk capacity is defined as the maximum level of risk DB Colombo can assume given the capital and liquidity base, risk management and control capabilities, and regulatory constraints. The thresholds for key risk appetite metrics are fully integrated into DB Colombo's risk management processes: the thresholds are considered in the planning process, and are subjected to stress testing. Threshold breaches, are subject to a dedicated governance framework triggering management actions. The risk identification and assessment process is performed annually or ad-hoc if required and results in a risk inventory. Subsequently, all material risks are measured as the basis of regulatory and internal capital demand quantification. DB Colombo distinguishes between pillar 1 regulatory models to quantify risk weighted assets (RWA) and pillar

2 internal models to quantify internal economic capital (EC) requirements. While RWAs only cover credit, market, and operational risk (OR), the internal EC model framework covers all material risks. As part of the planning process, long-term targets of DB Colombo are articulated, its business lines, for the next 5 years. These targets are defined in key performance indicators (KPI) which, besides others, also cover the key risk appetite metrics.

The Strategic and Capital Plan translates DB Colombo's long-term strategy into measurable short to mid-term financial targets and enables intra-year performance management. The Strategic and Capital Plan ensures alignment of earnings, balance sheet and capital targets including risk appetite with the strategy of DB Colombo and provides the basis for ongoing Performance Management.

Risk Governance

When managing risks DB Group considers risks holistically. DB follows an integrated (centralized) risk management approach that ensures group-wide consistency in risk management standards overseen by a dedicated Group Enterprise Risk Management function, while allowing for adaptation to local or legal entity specific regulatory requirements. In order to enable additional controls and/ or to address regulatory requirements additional dimensions such as regional and business (Business Division/ Business Unit) may be considered.

Overarching standards and minimum requirements with regards to policies, procedures and processes are set on Group level. The other dimensions may further define more specific requirements while remaining consistent with the Group standards.

Risk is supported by key global hubs: Credit Risk Management - Deutsche Bank, India, Market Risk Management - Deutsche Bank, India, Operational Risk Management - DB APAC Risk, Group Enterprise Risk Management Function, and Head Office - Germany provides centralized Risk coverage to DB Colombo. DB's Hubs include staff from relevant Risk-types ensuring effective risk management and capitalize on the intellectual and strategic synergies when housing risk-type subject-matter-expertise together.
Liquidity Risk Management (LRM) is a governance function of LRM team and Branch Treasury manages liquidity risk within LRM set parameters and within ALCO framework.

Organizational set up of risk management

Branch Management Board (BmB)

The Branch Management Board (BmB), exercises strategic control and supervision of DB Colombo. It monitors DB Colombo's risk and capital profile regularly. BmB is responsible for defining and implementing comprehensive and aligned business and risk strategies, as well as ensuring well defined risk management functions recommended by the relevant Risk Groups and operating processes are in place to ensure that DB Colombo's overall performance is aligned to its business and risk strategy. Based on the recommendations of the relevant Risk Groups risk strategy is approved by the Branch Management Board (BmB) annually and is defined based on the DB Colombo risk appetite and strategic and capital plan in order to align risk, capital and performance targets.

For risk-related topics, the risk management committees directly established by the Branch are in particular the Branch Management Board (BmB) and Asset and Liability Committee (ALCO)

Committee Structure Deutsche Bank AG ,Colombo Branch			
Branch Management Board		**Asset and Liability Committee**	
Chair	Frequency	Chair	Frequency
Chief Country Officer	Monthly	Treasurer	Monthly

Overview of functional committees with risk-focus at DB Colombo

- The Branch Management Board (BmB) and the Asset and Liability Committee (ALCO), identifies, controls and manages all risks including risk concentrations of DB Colombo. It is responsible for risk policy, the organisation and governance of risk management as well as ensuring the oversight of the execution of risk and capital management including identification, analysis and risk mitigation, within the scope of the risk and capital strategy (Risk & Capital Demand Plan) approved by the Management Board. The Branch Management Board (BmB) and Asset and Liability Committee (ALCO) are responsible for oversight on risk portfolios and policies.

- The Branch Management Board (BmB) oversees, governs and coordinates the management of non-financial risks of DB Colombo and establishes a cross-risk and holistic perspective of the key non-financial risks of DB Colombo. It is tasked to define the non-financial risk appetite tolerance framework, to monitor and control the non-financial risk operating model, including the Three Lines of Defence principles and interdependencies between (i) Business Divisions and Control Functions and (ii) different Control Functions.

- The Asset and Liability Committee (ALCO) has responsibility for the alignment of risk appetite, capitalisation requirements and funding needs of DB Colombo with Group-wide, divisional and sub-divisional business strategies. It steers efficient capital consumption by determining capital availability in support of divisional business portfolios, capital earmarked for fresh investments, as well as other uses.

An overlap in membership between these committees facilitates a constant and comprehensive information flow.

Country Chief Operating and Risk Officer

Sri Lanka / Deutsche Bank AG, Colombo Branch's chief risk officer (COO/CRO) supported by DB Group Risk has Branch-wide, responsibilities for the effective management and control of all credit, market and operational risks. CRO maintains dialogue with the local regulators, seeking both to understand current and future expectations as well as influence regulators to support the best outcome for risk, oversees the development and execution of local objectives, plans and policies and seeks to improve the bank's competitive position and performance amongst its peers.

CRO reports into the Branch Management Board (BmB) of DB Colombo, and as country COO reports into the Regional Management, thus ensuring enterprise & group-wide management of risks.

Risk management by risk types

Risk type functions set risk specific methodologies, principles, policies and models in order to manage, limit, control and mitigate the different risk types. Risk type functions include all financial (i.e. market risk, liquidity risk and credit risk) and several non-financial (operational & reputational risk) risks.

Risk Management beyond Risk Functions

Risk views of **Independent Control Functions** e.g. Regulation, Compliance and Anti Financial Crime (AFC), Finance, Legal, Human Resources (HR), are integrated into the overall risk management framework via joint risk management principles and committees. These independent functions must be informed of all significant business developments, initiatives, new products and operational changes by the business divisions and infrastructure functions and must be provided access to personnel and material to enable them to identify and assess material system and control risks.

Risk identification & assessment

The primary purpose of the risk identification and assessment process is to identify and assess all risks that DB Colombo is exposed to according to their relevance and adequacy of the risk management framework in place. The underlying risk inventory is essentially structured into three key elements:

1. identification and assessment of all the risks;
2. approval of the risk inventory, and
3. embedding of these risks into the risk management practices.

The process is carried out on an annual or an ad-hoc basis if required by the Branch Management Board (BmB) which then involves the respective 1st and 2nd LoD in the identification and assessment.
The risk identification and assessment process is an integral part of DB Colombo's risk management. Particularly, it is aligned with the risk appetite framework as follows: The risk appetite is articulated on a universal level in terms of capital and liquidity ratios and supplemented by risk type specific risk appetites

Key risk Types

Credit Risk

Credit risk arises from all transactions where actual, contingent or potential claims against any counterparty, borrower or obligor (which is referred to collectively as "counterparties") exist, including those claims that DB Colombo plans to distribute.

The below dimensions are the key drivers for credit risk:

Risk	Risk definition (short description)
Counterparty risk	Risk that counterparties fail to meet contractual obligations
Country risk	Risk that DB may suffer a loss due to possible deterioration of economic conditions; political and social upheaval; nationalisation and expropriation of assets; government repudiation of external indebtedness; exchange controls or currency depreciation or devaluation in any given country.
Industry Risk	Risk of adverse developments in the operating environment for a specific industry segment leading to a deterioration in the financial profile of counterparties operating in that segment and resulting in increased CR across this portfolio of counterparties.
Product risk	Risk driven by the underlying structure and economic dependencies of the product in question and can include factors such as tenor, recovery expectations and likelihood of having an exposure at the time of a default. Also includes 'settlement risk' arising from the non-simultaneous transfer of cash or securities due to the settlement or clearance of trades.

Market Risk

Market risk arises from the uncertainty concerning changes in market prices and rates (including interest rates, equity prices, foreign exchange rates and commodity prices), the correlations among them and their levels of volatility. Four different risks are considered by Market Risk management:

Traded market risk	Risk that involves taking positions in debt, equity, foreign exchange, other securities and commodities as well as in equivalent derivatives.	MR mgt.
Non-traded market risk	Risk arising from market movements in the banking book and from off-balance sheet items.	
Traded default risk	Risk that arises from defaults and rating migrations relating to trading instruments.	
Interest rate risk in the bank book	Risk to present values arising from adverse movements in underlying interest rates in the banking book.	

Liquidity Risk

Liquidity risk is defined as the risk arising from the potential inability to meet all payment obligations when they fall due or only being able to meet these obligations at excessive costs. The objective of the Group's liquidity risk management framework is to ensure that the Group can fulfil its payment obligations at all times and can manage liquidity and funding risks within its Board-approved risk appetite. The framework considers all relevant and significant drivers of liquidity risk, whether on-balance sheet or off-balance sheet.

Operational Risk

Operational Risk means the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and includes legal risk. Operational risk excludes business and reputational risk.

DB Colombo manages Operational Risk (OR) based on a Group-wide consistent framework which enables DB Group to determine the OR profile in comparison to the risk tolerance, to systematically identify OR themes and to define appropriate risk mitigation measures and priorities.

Non-Financial Risk Management ("NFRM") is the Risk function for the Non-Financial Risk types of the Bank including Operational Risk. It owns the overarching Operational Risk Management Framework (ORMF).

Interest Rate Risk in Banking book

As per DB global policy, only Corporate Banking and Securities division (CB&S) is allowed to run market risk. Market risk for Global Transaction Banking (GTB) i.e. all Non CB&S divisions (including interest rate risk) is transferred to CB&S via internal pricing mechanism. No interest rate risk run in banking book by Non CB&S divisions. This process was followed till November 2016. As management decided to close CB&S division for few countries (including Colombo), process was discontinued in Colombo from end of November 2016. Market Risk limits for CB&S was withdrawn. GTB is allowed to access market to facilitate clients but GTB is not allowed to run interest rate risk or FX risk. However, there may be small residual FX or interest rate risk will remain on overnight basis while covering and facilitating client flows.

DB Colombo Risk Appetite

DB Colombo's risk appetite consists of minimum quantitative metrics (key risk appetite metrics incl. per risk type) and qualitative statements, monitored and reported regularly, these components are fundamental components of the Bank's risk management.

Qualitative Statements

DB Colombo's qualitative risk appetite is built on the following qualitative statements which are aligned with the statements applicable on DB Group level:

1. Risk is taken within a defined risk appetite, which is actively managed and monitored in a timely manner, in order to maintain a robust risk profile and capital adequacy.

2. Maintain stable funding and strategic liquidity to ensure that business is conducted within the liquidity risk appetite.

3. Avoid any undue concentrations within the portfolios considering multiple dimensions. e.g. counterparty, region/ country, industries, products/ asset classes and business lines.

4. Promote balanced risk adjusted performance and be fully responsible for accepting well compensated risks within risk appetite.

5. Ensure that any business activity is supported by appropriate processes and controls to minimize operational risk.

6. Minimize negative reputational, environmental and social impacts of business activities.

Key risk appetite metrics

DB Colombo assigns six key risk appetite metrics that are sensitive to its material risks. These metrics are:
- Common Equity Tier 1 (CET1) ratio
- Total capital adequacy ratio
- Economic Capital Adequacy (ECA) ratio
- Liquidity Coverage Ratio (LCR)

- Stressed Net Liquidity Position (sNLP)
- Funding Matrix (FM)

To select the above mentioned metrics, following principles have been applied:

Principle 1: Metrics are embedded in risk management processes and practices, are managed and monitored via associated governance frameworks so that they are fully integrated into day-to-day risk management.
Principle 2: Metrics are clearly and unambiguously defined as well as fully compliant with regulatory requirements. In particular, the significance of a metric in representing the financial health of the organization and its relationship with other metrics has to be transparent and meaningful.
Principle 3: Risk appetite metrics are assessed in regular stress-testing processes. Stress test results are also monitored and subject to an escalation process in case of specific threshold breaches.
Principle 4: Metrics are relevant to the Bank's activities and are sensitive to the material risk types the Bank is exposed to.

A traffic light concept is used to monitor where DB Colombo is positioned in relation to its risk appetite (amber threshold) and its risk capacity (red threshold).

Monitoring of risk appetite

Ongoing tracking and monitoring of the actual risk profile vs. risk appetite for all risk appetite metrics in DB Colombo are captured in the quarterly 'Risk, Capital and Profile (RCP)' report. The RCP is presented to the Branch Management Board (BmB).

Escalation mechanism

In the event that the Bank's desired risk appetite is breached under either normal or stress scenarios, an escalation governance matrix as predefined locally is applied so these breaches are highlighted to the Branch Management Board (BmB). As such, the Branch Management Board (BmB) has to review and decide if further escalation to the Group and/ or mitigating actions are required to bring the risk profile back to the desired risk appetite. The risk appetite framework is approved by the Branch Management Board (BmB).

Risk culture

We promote a strong risk culture where employees at all levels are responsible for the management and escalation of risks. We expect employees to exhibit behaviors that support a strong risk culture in line with our Code of Business Conduct and Ethics. To promote this, our policies require that risk-related behavior is taken into account during our performance assessment and compensation processes. We have a principles-based assessment of risk culture, in particular focusing on risk awareness, risk ownership and management of risk within risk appetite. Assessment results are incorporated into existing risk reporting, reinforcing the message that risk culture is an integral part of effective day-to-day risk management.

A strong risk management culture helps to reinforce the bank's resilience by ensuring a holistic approach to the management of risk and return throughout the organisation. DB Group sets and oversees the risk culture framework and standards for DB Colombo; however, the management of risk is the responsibility of all employees. Divisions and functions across DB are responsible for embedding DB Colombo's risk culture standards.

Three Lines of Defence (3LoD)

We operate a Three Lines of Defense ("3LoD") risk management model, in which risk, control and reporting responsibilities are defined.

- The 1st Line of Defense ("1st LoD") refers to those roles in the Bank whose activities generate risks, whether financial or non-financial.
- The 2nd Line of Defense ("2nd LoD") refers to the risk type controller roles in the Bank who facilitate the implementation of a sound risk management framework throughout the organization. The 2nd LoD defines the risk appetite and risk management and control standards for their risk type, and independently oversees and challenges the risk taking and risk management activities of the 1st LoD.
- The 3rd Line of Defense ("3rd LoD") is Group Audit, which is accountable for providing independent and objective assurance on the adequacy of the design and effectiveness of the systems of internal control and risk management.

Risk measurement

Overview of DB Colombo's risk measurement practice

Besides the standardized approach used to fulfil pillar 1 requirement, and in consistence with DB Group's approach, DB Colombo takes into account a comprehensive variety of risks that result of the bank's business activities, respecting a more economical approach (Pillar 2 Framework) on top of the regulatory approach. DB Colombo considers the pillar 2 model framework to be more adequate for risk management and steering of the bank given the respective Economic Capital (EC) captures the portfolio specifics and risk management practices vs. the minimum requirements of the generically applicable regulatory models.

DB Colombo's internal risk measures are based on DB Group economic risk quantification methodologies and governance. DB Group uses different methodologies for the assessment of risks that provides qualitative as well as quantitative assessments.

The following principles define bank's internal risk measurement practice

- All relevant risks are measured quantitatively or qualitatively
- All measurement approaches meet high quality standards, are appropriate for the type of risk measured and provide sufficient transparency.
- All measurement approaches are subject to a rigorous validation routine at Group level, in order to ensure they are fit for purpose in an independent review and quality assurance process.

In implementing these principles, Risk has established a dedicated organization for model development bundling model expertise across risk types. Accountability for proper measurement approaches is lying with DB global Heads of the respective risk type who are also members of DB Group Risk Committee (GRC).

Risk Reporting and Monitoring

DB Colombo's risk reporting is aligned throughout the organisation to support DB Colombo's risk management framework and in particular the risk management processes and activities. The DB Colombo Risk & Capital Profile Report is presented to the Branch Management Board (BmB) on a quarterly basis. It comprises an overview of the current profit and loss, risk, capital and liquidity status of DB Colombo, also

incorporating information on regulatory capital and economic capital adequacy. Relevant stress testing results are also included in this report on a regular basis.
Senior DB Colombo risk/executive committees also receive supplemental regular reporting (as well as ad-hoc reporting as required), if deemed relevant by the CRO/Treasurer of DB Colombo or if required due to Group policies. Reporting as such includes but is not limited to

- The quarterly Risk & Capital Profile (RCP) report;
- The monthly standard MIS containing credit portfolio information
- The daily risk performance status report on market risk; and
- The ALCO report on capital, funding and liquidity of the bank, as well as liquidity stress testing (where relevant).

Credit Risk Mitigation Techniques

Credit risk is generally mitigated at DB Group level. DB Colombo employs the different techniques available for the management of credit risk in line with the strategy established at DB Group level. DB Colombo takes into account the local laws / local market practice for the use of credit risk mitigants. DB Colombo may also apply guarantees or other instruments to transfer credit risk to DB AG or other legal entities within DB Group.

Mitigation of credit risk on counterparty level

In addition to determining counterparty credit quality and risk appetite, DB Colombo also uses various CR mitigation techniques to optimize credit exposure and reduce potential credit losses. CR mitigants are applied in the following forms:

- Comprehensive and enforceable credit documentation with adequate terms and conditions.
- Collateral held as security to reduce losses by increasing the recovery of obligations.
- Risk transfers, which shift the probability of default risk of an obligor to a third party
- Netting and collateral arrangements which reduce the credit exposure from derivatives and repo- and repo-style transactions.

Collateral

DB Colombo regularly agrees on collateral to be received from or to be provided to customers in contracts that are subject to CR. Collateral is security in the form of an asset or third-party obligation that serves to mitigate the inherent risk of credit loss in an exposure, by either substituting the borrower default risk or improving recoveries in the event of a default. While collateral can be an alternative source of repayment, it generally does not replace the necessity of high quality underwriting standards and a thorough assessment of the debt service ability of the borrower.
DB Colombo segregate collateral received into the following two types:

- Financial and other collateral, which enables us to recover all or part of the outstanding exposure by liquidating the collateral asset provided, in cases where the borrower is unable or unwilling to fulfil its primary obligations. Cash collateral, securities (equity, bonds), collateral assignments of other claims or inventory, equipment (i.e., plant, machinery and aircraft) and real estate typically fall into this category.
- Guarantee collateral, which complements the borrower's ability to fulfil its obligation under the legal contract and as such is provided by third parties. Letters of credit, insurance contracts, export credit insurance, guarantees, credit derivatives and risk participations typically fall into this category.

DB Colombo's processes seek to ensure that the collateral that is accept for risk mitigation purposes is of high quality. This includes seeking to have in place legally effective and enforceable documentation for realizable and measureable collateral assets which are evaluated regularly by dedicated teams. The assessment of the suitability of collateral for a specific transaction is part of the credit decision and must be undertaken in a conservative way, including collateral haircuts that are applied. There are collateral type specific haircuts in place which are regularly reviewed and approved. In this regard, "wrong-way" risk characteristics are avoided where the borrower's counterparty risk is positively correlated with the risk of deterioration in the collateral value. For guarantee collateral, the process for the analysis of the guarantor's creditworthiness is aligned to the credit assessment process for borrowers.

Risk transfers

Risk transfers to third parties form a key part of the overall risk management process and are executed in various forms, including outright sales, single name and portfolio hedging, and securitizations. Risk transfers are conducted by the respective business units, in accordance with specifically approved mandates.

Concentrations within CR mitigation

Concentrations within CR mitigations taken may occur if a number of guarantors with similar economic characteristics are engaged in comparable activities with changes in economic or industry conditions affecting their ability to meet contractual obligations. DB Colombo uses a range of quantitative tools and metrics to monitor CR mitigating activities. These also include monitoring of potential concentrations within collateral types supported by dedicated stress tests.

Contingency Funding Plan is applicable to DB Colombo and contains information on governance, funding risks and countermeasures to deal with liquidity stress, which is covered within the Liquidity Policy. Market related as well as idiosyncratic events can lead to a temporary or longer-term disruption of DB's access to funding. To safeguard DB's liquidity position under moderate and severe stress, DB Colombo established Contingency Funding Plan (CFP). The CFP supports the effective operational management of a stress situation by providing a clear menu of options for safeguarding the bank's funding and liquidity position, and operational procedures for executing those actions.

In addition to the above, the objectives of the CFP are to:

- Clearly articulate the criteria for invoking the CFP;
- Establish the protocols for reviewing and executing selected CFP countermeasure(s) in a stress scenario;
- Provide the overall governance structure for the invocation, execution, and monitoring of the CFP; and
- Establish procedures for testing the CFP.

In general, the Bank's business model is sufficiently flexible to adjust to structural changes in market and funding conditions within a time frame of about eight weeks.
If the stress event extends beyond an eight-week horizon, additional strategic countermeasures can be mobilized, such as reducing the funded balance sheet and increasing stable funding sources where possible.

Testing the CFP

The Local Treasurer is responsible for ensuring the execution of a CFP test exercise. However, should Deutsche Bank AG Colombo experience an actual or anticipated liquidity stress and the local ALCO meet and invoke the CFP then there shall be no need to carry out a test of the CFP.

In the absence of an actual or anticipated liquidity stress, Deutsche Bank AG Colombo shall carry out testing of its contingency funding plan on an annual basis to ensure its effectiveness and operational feasibility. Among other things, the test will cover activation of the call tree and hence the ALCO, preparation of internal management reports, and confirmation of key system availability.

The Local Treasurer is responsible for ensuring that the CFP and supporting documentation is reviewed and updated to include "lessons learnt" following completion of a test exercise.

Operational Risk Mitigation techniques

The Bank mitigates the assessed risks to a level where the residual risk fits into the defined risk appetite. Issues are identified, mitigating actions clearly tracked and are sufficient to reduce the residual risk to within risk appetite. Where within appetite, further mitigation can be temporarily delayed following a defined risk acceptance process including the review and challenge by the risk control functions who have a veto authority.

Identified and assessed operational risks can be further reduced by performing mitigation activities, e.g. by improving the control environment, by transferring risks (i.e. insurance), or by ultimately reducing / ceasing the business activity. The transferring of risks using insurance activities is managed and governed by Corporate Insurance Deukona (CID).

Mitigation activities which are not already monitored by another resolution monitoring process, such as findings management are captured, recorded and governed within the issue management process. These self-identified issues address control gaps and deficiencies which have not already been addressed elsewhere (e.g. audit and regulatory findings or actions) and could result in an OR event.

The Group proactively identifies and addresses control deficiencies and gaps through the issue management process. For critical issues (and significant optionally), the risk control functions mandatorily review and challenge the mitigation plan and may exercise a veto where the planned mitigation is insufficient to bring the residual risk back within risk appetite.

If the residual risk (incl. after the completion of mitigation activities) is within risk appetite – qualitatively and quantitatively - a related issue can be risk accepted for a certain time frame and not mitigated further during this time. If residual risks remain significant / critical but are considered applicable for OR acceptance, the risk acceptance process as defined in the ORMF is followed. Risk acceptances will undergo independent challenge and risk control functions have a veto authority.

Contingency plans to handle failure and situations:

Business Process Disruption Risk is the risk of failure in the business ability to resume relevant business activities after disruptions affecting people, infrastructure, assets and operations. Within Non-Financial Risk Management(NFRM) Operational Resilience Risk (ORR), Business Continuity Management (BCM) is responsible for the Business Process Disruption Risk and therefore for the design, implementation and maintenance of the Bank's BCM Framework, including IT Disaster Recovery (ITDR) and Recovery Site Management (RSM).DB proactively manages Business Process Disruption Risk by running a Business Continuity Framework, compliant with globally and locally applicable laws and regulations and aligned to relevant industry standards. The BCM Framework aims to continuously improve the resilience of the Bank. Testing business continuity capabilities is a required component of the Bank's BCM program. Testing ensures Recovery Strategies can be successfully implemented and that required resources and capabilities have been put in place.

The BRST is used to validate Recovery Strategies through a series of one or more exercises/tests. Exercises identify weaknesses and opportunities for improvement, enabling remediation in advance of an actual crisis. They also help staff remain aware of their role and responsibilities in their BC Document.

The BCM Lifecycle defines the minimum requirements for documenting, maintaining and testing business continuity plans and ensuring that staff is aware of and trained on their responsibilities within the plan. BCM lifecycle deliverables such as Business Continuity Document, Call Tree Test (Staff Contact Information), Business Recovery Solution Test (BRST), and BCM Awareness Training must be documented in eBCM, the Bank's electronic repository for business continuity documentation. Except for Call Tree Test which is updated every 6 months, other deliverables are updated on an annual basis.

Market Risk Mitigation Techniques

It is the responsibility of each trading desk and business unit to manage their risk exposures, adhere to the approved exposure limits and hence to mitigate market risks appropriately. This can be achieved by using different hedging techniques to reduce relevant exposure. The ultimate responsibility for implementing any required hedging strategy lies with individual business unit management or, in the case of macro-hedges, with central management. Market Risk Management (MRM) can undertake a review of the hedging strategies that are put in place in order to ensure that the risks of the underlying exposures and the hedging positions are fully understood and adequately represented in the systems.

Quantitative disclosures

i) Credit Risk

Total gross credit risk exposures broken down by major types of credit exposure.

In TLKR	2018 as at 31 Dec	2017 as at 31 Dec
Balances with Central bank of Sri Lanka	2,607,527	649,921
Balances with Banks & Financial Institutions	16,211	27,373
Placements with Banks	3,200,611	3,165,119
Group balances receivable	6,041,558	3,108,443
Investment in Government Securities	15,298,140	16,381,564
Other investments	1,600	1,600
Loans and Advances	11,982,229	9,579,696
Total on-balance sheet items	39,147,878	32,913,716
Letters of credit	1,054,286	3,082,335
Guarantees	8,342,955	7,830,306
Acceptances	776,842	708,022
Derivatives (net)	1,126	(234)
Usance Import bills	832,210	1,355,304
Undrawn credit lines	11,656,433	17,896,826
Other	-	46,001
Total off-balance sheet items	22,663,852	30,918,560

Geographic distribution of exposures, broken downs in significant areas by types of credit exposure.

As at 31st Dec 2018 In TLKR	Central P	Western P	Total Sri Lanka	Asia Pacific (excl Sri Lanka)	North & Latin America	Africa & Middle East	Europe	Others
Balances with Central bank of Sri Lanka		2,607,527	2,607,527					
Balances with Banks & Financial Institutions		-	-	7,730	1,069		7,412	
Placements with Banks		3,200,611	3,200,611					
Group balances receivable			-	3,753,149	1,033,369		1,255,040	
Investment in Government Securities		15,298,140	15,298,140					
Other investments		1,600	1,600					
Loans and Advances	4,143	11,978,086	11,982,229					
Total on-balance sheet items	4,143	33,085,964	33,090,107	3,760,879	1,034,438	-	1,262,452	-
Letters of credit		1,054,286	1,054,286					
Guarantees		1,418,229	1,418,229	3,834,656		64,033	3,026,038	
Acceptances		776,842	776,842					
Derivatives (gross)		1,126	1,126					
Usance Import bills		832,210	832,210					
Undrawn credit lines		11,656,433	11,656,433					
Other		-	-					
Total off-balance sheet items	-	15,739,125	15,739,125	3,834,656	-	64,033	3,026,038	-
Total Exposure	4,143	48,825,089	48,829,233	7,595,535	1,034,438	64,033	4,288,490	-

As at 31st Dec 2017 In TLKR	Central P	Western P	Total Sri Lanka	Asia Pacific (excl Sri Lanka)	North & Latin America	Africa & Middle East	Europe	Others
Balances with Central bank of Sri Lanka		649,921	649,921					
Balances with Banks & Financial Institutions		-	-	6,044	1,120		19,119	1,090
Placements with Banks		3,165,119	3,165,119					
Group balances receivable			-	1,292,063	1,317,953		498,427	
Investment in Government Securities		16,381,564	16,381,564					
Other investments		1,600	1,600					
Loans and Advances	4,586	9,575,110	9,579,696					
Total on-balance sheet items	4,586	29,773,314	29,777,900	1,298,107	1,319,073	-	517,546	1,090
Letters of credit		3,082,335	3,082,335					
Guarantees		291,499	291,499	4,789,488		931	2,720,846	27,542
Acceptances		708,022	708,022					
Derivatives (gross)		(234)	(234)					
Usance Import bills		1,355,304	1,355,304					
Undrawn credit lines		17,896,826	17,896,826					
Other		46,001	46,001					
Total off-balance sheet items	-	23,379,753	23,379,753	4,789,488	-	931	2,720,846	27,542
Total Exposure	4,586	53,153,067	53,157,653	6,087,595	1,319,073	931	3,238,392	28,632

Sector wise distribution of exposures, broken down by major types of credit exposure - as per Bank Supervision categories

31st December 2018 In TLKR	Bills of Exchange	Overdrafts	Export Finance	Trade Finance	Supplier finance	Other	Total
Agriculture & Fishing	-	14,410	-	-	-	-	14,410
Manufacturing	-	2,194,564	-	2,258,138	907,181	-	5,359,883
Tourism	-	656,100	-	-	-	-	656,100
Transport	-	198,362	-	-	-	-	198,362
Construction	-	-	-	-	-	121,656	121,656
Trading	-	3,695,336	-	331,372	-	-	4,026,708
Telecommunications	-	1,018	-	-	-	-	1,018
Financial & Business Services	-	1,521,819	-	-	-	-	1,521,819
Other	-	-	-	-	-	82,274	82,274
Total	-	8,281,608	-	2,589,510	907,181	203,930	11,982,229

31st December 2017 In TLKR	Bills of Exchange	Overdrafts	Export Finance	Trade Finance	Supplier finance	Other	Total
Agriculture & Fishing	-	1,000,510	61,364	99,782	110,242	-	1,271,899
Manufacturing	-	2,403,306	767,054	647,899	21,580	-	3,839,840
Tourism	-	963,768	-	-	-	-	963,768
Transport	-	200,795	-	-	-	-	200,795
Construction	-	-	-	-	-	99,226	99,226
Trading	-	1,445,438	-	31,517	-	-	1,476,955
Telecommunications	-	734,123	-	-	916,674	-	1,650,798
Financial & Business Services	-	10	-	-	-	-	10
Other	-	-	-	-	-	76,405	76,405
Total	-	6,747,952	828,418	779,199	1,048,497	175,630	9,579,698

Residual contractual maturity breakdown of the whole credit portfolio, by major types of credit exposure

		31-Dec-18		31-Dec-17	
In Tlkr	Type	Utilisation/Exposure	Total	Utilisation/Exposure	Total
< 1 year	On-balance sheet	35,318,683		29,694,863	
	Off-Balance Sheet	17,890,659	53,209,342	29,153,542	58,848,405
1 year- 5 years	On-balance sheet	3,742,980		3,163,525	
	Off-Balance Sheet	3,502,189	7,245,169	1,738,445	4,901,970
> 5 years	On-balance sheet	86,213		55,328	
	Off-Balance Sheet	1,271,004	1,357,217	26,572	81,900

Maximum amount of exposure (before deducting the value of collateral), description of collateral, information about credit quality of financial assets that are neither past due nor impaired and information about credit quality of financial assets.

In TLKR 31st December 2018	Gross exposure	Collateral	Net exposure	Description of collateral	Description of Credit Quality
Balances with Central Bank of Sri Lanka	2,607,527		2,607,527	n/a	Sovereign Risk
Balances with Banks & Financial Institution	16,211		16,211	n/a	66% of exposure with AAA to A- rated counterparts and 34% of exposure with BBB+ to BBB- rated counterparts
Placements with Banks	3,200,611		3,200,611		100% of exposure with AAA to BBB- locally rated counterparts.
Group balances receivable	6,041,558		6,041,558		Credit risk exposure of Group Receivables
Investment in Government Securities	15,298,140		15,298,140	n/a	Sovereign Risk
Other investments	1,600		1,600	n/a	Regulatory mandated investments in Lanka Clear & CRIB, subject to credit risk
Loans and Advances	11,982,229		11,982,229	Refer Note *	The others are classified as unrated as no local ratings have been issued. However all are performing as at period end.
Total on-balance sheet items	39,147,876	-	39,147,876		
Letters of credit	1,054,286		1,054,286		
Guarantees	8,342,955		8,342,955		
Acceptances	776,842		776,842	Refer Note *	Total credit equivalent of off b/s exposures is LKR 5.8 bio, of which 53% of the exposure is with AAA to BBB- counterparts. All performing as at period end.
Derivatives (net)	1,126		1,126		
Usance Import bills	832,210		832,210		
Undrawn credit lines	11,656,433		11,656,433		
Other	-		-		
Total off-balance sheet items	22,663,852	-	22,663,852		

In TLKR 31st December 2017	Gross exposure	Collateral	Net exposure	Description of collateral	Description of Credit Quality
Balances with Central Bank of Sri Lanka	649,921		649,921	n/a	Sovereign Risk
Balances with Banks & Financial Institution	27,373		27,373	n/a	83% of exposure with AAA to A- rated counterparts and 17% of exposure with BBB+ to BBB- rated counterparts
Placements with Banks	3,165,119		3,165,119		100% of exposure with AAA to BBB- locally rated counterparts.
Group balances receivable	3,108,443		3,108,443		Credit risk exposure of Group Receivables
Investment in Government Securities	16,381,564		16,381,564	n/a	Sovereign Risk
Other investments	1,600		1,600	n/a	Regulatory mandated investments in Lanka Clear & CRIB, subject to credit risk
Loans and Advances	9,579,696		9,579,696	Refer Note *	3% of exposure with AAA to AA- locally rated counterparts. The others are classified as unrated as no local ratings have been issued. However all are performing as at period end.
Total on-balance sheet items	32,913,716	-	32,913,716		
Letters of credit	3,082,335		3,082,335		
Guarantees	7,830,306		7,830,306		
Acceptances	708,022		708,022	Refer Note *	Total credit equivalent of off b/s exposures is LKR 4.5 bio, of which 43% of the exposure is with AAA to BBB- counterparts. All performing as at period end.
Derivatives (net)	(234)		(234)		
Usance Import bills	1,355,304		1,355,304		
Undrawn credit lines	17,896,826		17,896,826		
Other	46,001		46,001		
Total off-balance sheet items	30,918,560	-	30,918,560		

Note *
Collaterals held are in the form of Parent Co. Guarantees and Stock Mortgages and since collaterals are provided for the combined facility (i.e. on b/s + off bs), it cannot be split accordingly to arrive at net exposure. Specific collaterals exist only for staff loans.

Description of policies, process, methods and key definitions on impairment/classification of exposures subject to credit risk.

Impairment of Loans and Provision for Off-Balance Sheet Positions

The impairment requirements of IFRS 9 apply to all credit exposures that are measured at amortized cost or FVOCI, and to off-balance sheet lending commitments such as loan commitments and financial guarantees. For purposes of the impairment policy below, these instruments are referred to as ("Financial Assets").

The determination of impairment losses and allowance moves from an incurred credit loss model whereby credit losses are recognized when a defined loss event occurs under IAS 39, to an expected credit loss model under IFRS 9, where allowances are taken upon initial recognition of the Financial Asset, based on expectations of potential credit losses at the time of initial recognition.

Staged Approach to the Determination of Expected Credit Losses

IFRS 9 introduces a three stage approach to impairment for Financial Assets that are not credit-impaired at the date of origination or purchase. This approach is summarized as follows:

- Stage 1: The Group recognizes a credit loss allowance at an amount equal to 12-month expected credit losses. This represents the portion of lifetime expected credit losses from default events that are expected within 12 months of the reporting date, assuming that credit risk has not increased significantly after initial recognition.
- Stage 2: The Group recognizes a credit loss allowance at an amount equal to lifetime expected credit losses for those Financial Assets which are considered to have experienced a significant increase in credit risk since initial recognition. This requires the computation of ECL based on lifetime probability of default, lifetime loss given default and lifetime exposure at default that represents the probability of default occurring over the remaining lifetime of the Financial Asset. Allowance for credit losses are higher in this stage because of an increase in credit risk and the impact of a longer time horizon being considered compared to 12 months in Stage 1.
- Stage 3: The Group recognizes a loss allowance at an amount equal to lifetime expected credit losses, reflecting a Probability of Default of 100 %, via the expected recoverable cash flows for the asset, for those Financial Assets that are credit-impaired. The Group's definition of default is aligned with the regulatory definition. Financial Assets that are credit impaired upon initial recognition are categorized within Stage 3 with a carrying value already reflecting the lifetime expected credit losses. The accounting treatment for these purchased or originated credit-impaired ("POCI") assets is discussed further below.

Significant Increase in Credit Risk

Under IFRS 9, when determining whether the credit risk (i.e., risk of default) of a Financial Asset has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes quantitative and qualitative information based on the Group's historical experience, credit risk assessment and forward-looking information (including macro-economic factors). The assessment of significant credit deterioration is key in determining when to move from measuring an allowance based on 12-month ECLs to one that is based on lifetime ECLs (i.e., transfer from Stage 1 to Stage 2).

The Group's framework for determining if there has been a significant increase in credit risk aligns with the internal Credit Risk Management ("CRM") process and covers rating related and process related indicators.

Credit-impaired Financial Assets in Stage 3

The Group has aligned its definition of credit-impaired under IFRS 9 to when a Financial Asset has defaulted for regulatory purposes.

The determination of whether a Financial Asset is credit-impaired and therefore in Stage 3 focusses exclusively on default risk, without taking into consideration the effects of credit risk mitigants such as collateral or guarantees. Specifically, a

Financial Asset is credit-impaired and in Stage 3 when:
- The Group considers the obligor is unlikely to pay its credit obligations to the Group. Determination may include forbearance actions, where a concession has been granted to the borrower or economic or legal reasons that are qualitative indicators of credit impairment; or
- Contractual payments of either principal or interest by the obligor are past due by more than 90 days.

For Financial Assets considered to be credit-impaired, the ECL allowance covers the amount of loss the Group is expected to suffer. The estimation of ECLs is done on a case-by-case basis for non-homogeneous portfolios, or by applying portfolio based parameters to individual Financial Assets in these portfolios via the Group's ECL model for homogeneous portfolios. This estimate includes the use of discounted cash flows that are adjusted for scenarios.

Forecasts of future economic conditions when calculating ECLs are considered. The lifetime expected losses are estimated based on the probability-weighted present value of the difference between the contractual cash flows that are due to the Group under the contract; and the cash flows that the Group expects to receive.
A Financial Asset can be classified as credit-impaired in Stage 3 but without an allowance for credit losses (i.e., no impairment loss is expected). This may be due to the value of collateral. The Group's engine based ECL calculation is conducted on a monthly basis, whereas the case-by-case assessment of ECL in Stage 3 for non-homogeneous portfolio has to be performed at least on a quarterly basis.

Purchased or Originated Credit-Impaired Financial Assets in Stage 3

A Financial Asset is considered purchased or originated credit-impaired if there is objective evidence of impairment at the time of initial recognition. Such credit-impaired Financial Assets are termed POCI Financial Assets. POCI Financial Assets are measured to reflect lifetime expected credit losses, and all subsequent changes in lifetime expected credit losses, whether positive or negative, are recognized in the income statement as a component of the provision for credit losses. POCI Financial Assets can only be classified in Stage 3 over the life of the Financial Asset.

Write-Offs

The Group reduces the gross carrying amount of a Financial Asset when there is no reasonable expectation of recovery.

Write-offs can relate to a Financial Asset in its entirety, or to a portion of it, and constitute a derecognition event. The Group considers all relevant information in making this determination, including but not limited to:

- Foreclosure actions taken by the Group which have not been successful or have a high probability of not being successful
- Collateral liquidation which has not, or will not lead to further considerable recoveries
- Situations where no further recoveries are reasonably expected

Write-offs can take place before legal actions against the borrower to recover the debt have been concluded, and a write-off does not involve the Group forfeiting its legal right to recover the debt.

Collateral for Financial Assets Considered in the Impairment Analysis
IFRS 9 requires cash flows expected from collateral and other credit enhancement to be reflected in the ECL calculation. The following are key aspects with respect to collateral and guarantees:

– Eligibility of collateral, i.e. which collateral should be considered in the ECL calculation;
– Collateral evaluation, i.e. what collateral (liquidation) value should be used; and
– Projection of the available collateral amount over the life of a transaction.

Critical Accounting Estimates – The accounting estimates and judgments related to the impairment of Financial Assets is a critical accounting estimate because the underlying assumptions used can change from period to period and may significantly affect the Group's results of operations.

In assessing assets for impairments, management judgment is required, particularly in projecting future economic information and scenarios in particular where circumstances of economic and financial uncertainty, when developments and changes to expected cash flows can occur both with greater rapidity and less predictability. The actual amount of the future cash flows and their timing may differ from the estimates used by management and consequently may cause actual losses to differ from reported allowances.

For those non-homogeneous loans in Stage 3 the determination of the impairment allowance often requires the use of considerable judgment concerning such matters as local economic conditions, the financial performance of the counterparty and the value of any collateral held, for which there may not be a readily accessible market.
The determination of the expected credit losses in Stages 1 and 2 and for homogeneous loans in Stage 3 is calculated using statistical expected loss models. The model incorporates numerous estimates and judgments. The Group performs a regular review of the model and underlying data and assumptions. The probability of defaults, loss recovery rates and judgments concerning ability of borrowers in foreign countries to transfer the foreign currency necessary to comply with debt repayments, amongst other things, are incorporated into this review.

Impairment/classification of exposures subject to credit risk (loans and advances only) Adopted for Regulatory financials submitted via web-based returns.

(a) Specific provisions for loan losses are made as follows:

In accordance with the Direction issued by the Central Bank of Sri Lanka on 08th May 2008, Direction No 3 of 2008 "Classification of Loans & Advances, Income Recognition & Provisioning" specific provisions on NPA are made as follows.

Category of NPA credit quality	Minimum specific provision requirement
Substandard	20%
Doubtful	50%
Loss	100%

The Bank does not have any specific provisions as per reporting date.

(b) General Provision

Direction issued by the Monetary Board of the Central bank of Sri Lanka on 27th September 2010 in terms of Section 46(1) of the Banking Act, No. 30 of 1988, as amended, requires all licensed commercial banks to reduce the rate of general loan loss provisioning by 0.1 % per quarter, commencing 1st October 2010, to achieve a general loan loss provisioning of 0.5% of total outstanding on-balance sheet performing loans and advances by 31st December 2011. Since this date, a rate of 0.5 % has been applied in determining general loan loss provisions in the regulatory financials.

ii) Market Risk

a) Interest Rate Risk - Interest rate sensitivity gap analysis for contractual and behavioural maturities – local and major currencies

Sensitivity of Assets and Liabilities
(Currency - LKR mio)
As at 31 Dec 2018

No.	Assets and OBS	Upto 1 month	1 - 3 Months	3 - 6 Months	6 - 12 Months	1 - 2 Years	2 - 3 Years	3 - 4 Years	4 - 5 Years	5 - 7 Years	7 - 10 years	10 - 15 Years	15 - 20 Years	Over 20 Years	Non Sensitive	Total
1	Cash on Hand	-	-	-	-	-	-	-	-	-	-	-	-	-	33	33
2	Deposits with CBSL	-	-	-	-	-	-	-	-	-	-	-	-	-	2,608	2,608
3	Balances due from HO/Affiliates/Branch	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4	Balances due from Other Banks	3,200	-	-	-	-	-	-	-	-	-	-	-	-	-	3,200
5	Investments	1,800	2,704	2,173	1,114	-	-	-	-	-	-	-	-	-	2	7,792
6	Bills of Exchange and Promissory Notes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7	Overdrafts	498	498	498	997	1,384	-	1,384	-	1,384	-	-	-	-	-	6,643
8	Loans and Advances	695	543	9	16	33	31	20	16	25	25	19	-	-	-	1,433
9	Non Performing Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	Fixed Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	50	50
11	Net Inter-branch Transactions	-	-	-	-	-	-	-	-	-	-	-	-	-	92	92
12	Accrued Interest	-	-	-	-	-	-	-	-	-	-	-	-	-	90	90
13	Other Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	1,876	1,876
14	Reverse Repos	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15	FRAs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
16	Swaps	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
17	Futures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18	Options	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
19	FX FWD Contracts- BUY	-	-	-	43	-	-	-	-	-	-	-	-	-	-	43
	Total	6,193	3,745	2,681	2,169	1,417	31	1,404	16	1,409	25	19	-	-	4,750	23,859
	Liabilities and OBS															-
1	Demand Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	5,077	5,077
2	Savings Deposits	116	116	116	232	290	290	290	290	580	-	-	-	-	-	2,322
3	Time Deposits	2,847	1,820	-	-	-	-	-	2	-	-	-	-	-	-	4,670
4	Other Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5	Balances due to HO/Affiliates/Branches	-	-	-	-	-	-	-	-	-	-	-	-	-	38	38
6	Balance due to other Banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7	Certificate of Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8	Other Borrowings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	Net Inter-branch Transactions	-	-	-	-	-	-	-	-	-	-	-	-	-	2,143	2,143
10	Bills Payable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	Interest Payable	-	-	-	-	-	-	-	-	-	-	-	-	-	9	9
12	Provisions (Others)	-	-	-	-	-	-	-	-	-	-	-	-	-	1,178	1,178
13	Capital	-	-	-	-	-	-	-	-	-	-	-	-	-	3,608	3,608
14	Reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	4,151	4,151
15	Retained Earnings + Current year Profits	-	-	-	601	-	-	-	-	-	-	-	-	-	-	601
16	Subordinate Debts	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
17	Other (Specify)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18	Repos	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
19	FRAs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20	Futures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
21	Swaps	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
22	Options	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Total	2,963	1,936	116	833	290	290	290	292	580	-	-	-	-	16,203	23,795
	Gap	3,230	1,809	2,564	1,336	1,127	(259)	1,114	(277)	829	25	19	-	-	(11,453)	64

	Upto 1 month	1 - 3 Months	3 - 6 Months	6 - 12 Months	1 - 2 Years	2 - 3 Years	3 - 4 Years	4 - 5 Years	5 - 7 Years	7 - 10 years	10 - 15 Years	15 - 20 Years	Over 20 Years	Non Sensitive	Total
Lines of credit committed to institutions and other borrowers	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Unutilised portion of overdraft, loans and advances	69	-	-	-	-	-	-	-	-	-	-	-	-	-	69
Letters of	621	1,449	216	358	370	84	-	-	-	-	-	-	-	-	3,097
rediscounted/Swaps/Forward contracts (LKR against Other currencies)	138	-	-	64	-	-	-	-	-	-	-	-	-	-	202

Sensitivity of Assets and Liabilities
(Currency - USD mio)
As at 31 Dec 2018

No.	Assets and OBS	Upto 1 month	1 - 3 Months	3 - 6 Months	6 -12 Months	1 - 2 Years	2 - 3 Years	3 - 4 Years	4 - 6 Years	5 - 7 Years	7 - 10 years	10 - 15 Years	15 - 20 Years	Over 20 Years	Non Sensitive	Total
1	Cash on Hand	-	-	-	-	-	-	-	-	-	-	-	-	-	0.0	0.0
2	Deposits with CBSL	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3	Balances due from HO/Affiliates/Branches	-	-	-	-	-	-	-	-	-	-	-	-	-	26.0	26.0
4	Balances due from Other Banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5	Investments	-	20.0	-	-	19.8	-	-	-	-	-	-	-	-	-	39.8
6	Bills of Exchange and Promissory Notes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7	Overdrafts	0.5	0.5	0.5	1.1	1.5		1.5		1.5	-	-	-	-	-	7.2
8	Loans and Advances	12.3	-	-	-	-	-	-	-	-	-	-	-	-	-	12.3
9	Non Performing Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	Fixed Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	Net Inter-branch Transactions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12	Accrued Interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13	Other Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	0.9	0.9
14	Revese Repos	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15	FRAs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
16	Swaps	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
17	Futures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18	Options	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
19	FX FWD Contracts- BUY	0.9	-	-	0.4	-	-	-	-	-	-	-	-	-	-	1.3
	Total	13.8	20.5	0.5	1.5	21.3	-	1.5	-	1.5	-	-	-	-	26.9	87.5
	Liabilities and OBS															
1	Demand Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	15.0	15.0
2	Savings Deposits	0.0	0.0	0.0	0.1	0.2	0.2	-	0.2	-	-	-	-	-	-	0.7
3	Time Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4	Other Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5	Balances due to HO/Affiliates/Branches	18.10	20.0	-	-	20.0	-	-	-	-	-	-	-	-	-	58.10
6	Balance due to other Banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7	Certificate of Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8	Other Borrowings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	Net Inter-branch Transactions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	Bills Payable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	Interest Payable	-	-	-	-	-	-	-	-	-	-	-	-	-	0.5	0.5
12	Provisions - income tax	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13	Capital	-	-	-	-	-	-	-	-	-	-	-	-	-	7.2	7.2
14	Reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	1.9	1.9
15	Retained Earnings	-	-	-	3.2	-	-	-	-	-	-	-	-	-	-	3.2
16	Subordinate Debts	-	-	-	-	-	-	-	-	-	-	-	-	-	1.7	1.7
17	Other (FCBU(USD) GLLP/PV)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18	Repos	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
19	FRAs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20	Futures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
21	Swaps	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
21	Options	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Total	18.1	20.0	0.0	3.3	20.2	0.2	-	0.2	-	-	-	-	-	26.3	88.3
	Gap	(4.4)	0.5	0.5	(1.8)	1.1	(0.2)	1.5	(0.2)	1.5	-	-	-	-	0.6	(0.8)

	Upto 1 month	1 - 3 Months	3 - 6 Months	6 -12 Months	1 - 2 Years	2 - 3 Years	3 - 4 Years	4 - 6 Years	5 - 7 Years	7 - 10 years	10 - 15 Years	15 - 20 Years	Over 20 Years	Non Sensitive	Total
Lines of credit committed to institutions and other borrowers	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Unutilised portion of overdraft, loans and advances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Letters of credit/guarantees/acceptances	5.4	8.5	8.3	3.2	2.7	1.4	-	0.7	5.5	-	-	-	-	-	35.7
Repo/Bills rediscounted/Swaps/Forward contracts (USD against Other currencies)	-	-	-	0.3	-	-	-	-	-	-	-	-	-	-	0.3

b) Foreign Exchange Risk - Foreign currency denominated assets and liabilities (both on and off-balance sheet) broken down by maturity bands, illustrating currency-wise maturity gaps, cumulative maturity gaps and net open position.

Foreign Exchange Position
Bank : Deutsche Bank AG- Colombo Branch
As at end of : 31st December, 2018

Currency	Spot Assets	Spot Liabilities	Net	Forward(a) Assets	Forward(a) Liabilities	Net	Net Open Position	Net Position in other exchange contracts	Overall exposure in respective foreign currency	Mio Overall exposure in Sri Lankan Rupees
(1)	(2)	(3)	(4)=(2)-(3)	(5)	(6)	(7)=(5)-(6)	(8)	(9)	(10)	(11)
US Dollars	90.7	81.2	9.4	1.8	0.3	1.5	10.9	-	10.95	2,002.9
Pound Sterling	0.1	0.1	(0.0)	-	-	-	(0.0)	-	(0.0)	(2)
Euro	7.1	6.7	0.3	-	0.0	(0.0)	0.3	-	0.3	66
Japanese Yen	2.6	0.5	2.1	0.8	-	0.8	2.9	-	2.9	5
Indian Rupee	-	-	-	-	-	-	-	-	-	-
Australian Dollar	0.0	0.0	0.0	-	-	-	0.0	-	0.0	1
Canadian Dollar	0.0	0.0	0.0	-	-	-	0.0	-	0.0	1
Other Currencies										
SGD									(0.0)	(4)
CHF									0.0	4
SEK									0.1	1
MYR									0.0	1
HKD									0.0	0
THB									0.0	0
CNH									0.1	3
Total Exposure										2,080
Total capital funds as per the latest audited financial statements (f)										10,701
Total exposure as % of total capital funds as per the latest audited financial statements (should not exceed 30%)										19%

iii) Liquidity Risk

Liquidity risk is the risk arising from our potential inability to meet all payment obligations when they come due or only being able to meet these obligations at excessive costs.

The objective of the Liquidity Risk Management (LRM) function is to ensure that Deutsche Bank (DB) can fulfil its payment obligations at all times. All relevant and significant drivers of liquidity risk, on balance sheet as well as off-balance sheet, must be taken into account. Prices of all asset and liability types need to reflect their liquidity risk characteristics and the Bank's cost of funding.

a) Trend in key liquidity ratios including, SLAR, LCR, net loans to total assets, loans to customer deposits, liquid assets to short term liabilities, commitments to liquid assets.

Ratios:	31-Dec-17	2018 Q1	2018 Q2	2018 Q3	2018 Q4
Statutory Liquid Assets Ratio (SLAR)					
- Domestic Banking unit	99%	123%	119%	96%	105%
- Off-Shore Banking unit	101%	108%	87%	72%	99%
Liquidity Coverage Ratio (LCR)					
- All Currency	731%	430%	606%	460%	338%
- Rupee	1021%	720%	881%	995%	725%
Net loans to total assets	28%	23%	25%	34%	29%
Loans to customer deposits	83%	52%	68%	99%	78%
Liquid assets to short term liabilities	148%	142%	141%	158%	141%
Commitments to Liquid assets	71%	64%	75%	48%	35%

b) Currency-wise (local and major currencies) maturity gaps of assets and liabilities (to cover both on and off-balance sheet assets and liabilities).

Maturities of Assets and Liabilities (MAL)
(Currency - LKR mio)
As at 31 Dec 2018

No	Heads of Accounts Item	Upto 1 month	1 - 3 Months	3 - 6 Months	6 - 9 Months	9 - 12 Months	1 - 3 Years	3 - 5 Years	Over 5 Years
A	Inflows								
1	Cash on Hand	33	-	-	-	-	-	-	-
2	Deposits with CBSL	893	626	186	132	132	123	123	392
3	Balances due from Head Office, Affiliates and Own branches	-	-	-	-	-	-	-	-
4	Balances due from Other Banks	3,200	-	-	-	-	-	-	-
5	Investments (Net of provisions)	1,800	2,704	2,173	751	363	-	-	2
6	Bills of Exchange	-	-	-	-	-	-	-	-
7	Overdraft	498	498	498	498	498	1,384	1,384	1,384
8	Loans and Advances	695	543	9	8	8	33	51	85
9	NPLs	-	-	-	-	-	-	-	-
10	Net Inter-Branch Transactions	-	-	-	-	-	-	-	-
11	Other Assets	1,805	7	-	-	-	-	-	65
12	Lines of credit committed from institutions	-	-	-	-	-	-	-	-
13	Reverse Repo	-	-	-	-	-	-	-	-
14	Accrued Interest	90	-	-	-	-	-	-	-
15	Fixed Assets	-	-	-	-	-	-	-	50
16	Interbranch receivables	92	-	-	-	-	-	-	-
17	FX FWD Contracts- BUY	-	-	-	43	-	-	-	-
	Total (a)	9,106	4,377	2,867	1,433	1,001	1,540	1,558	1,978
B	Outflows								
1	Demand Deposits	1,015	1,015	761	508	508	-	-	1,269
2	Savings Deposits	116	116	116	116	116	580	580	580
3	Balances due to Head Office/Affiliates/Own Branches	38	-	-	-	-	-	-	-
4	Balances due from Other Banks	-	-	-	-	-	-	-	-
5	Time and Other Deposits	2,847	1,820	-	-	-	-	-	2
6	Certificates of Deposits, Borrowings & Bonds	-	-	-	-	-	-	-	-
7	Net Inter-branch Transactions	255	-	-	-	-	1,888	-	-
8	Bills Payable	-	-	-	-	-	-	-	-
9	Interest Payable	9	-	-	-	-	-	-	-
10	Provisions other than for loan losses and depreciation in the value of investment portfolio	-	-	-	-	-	-	-	-
11	Other Liabilities	50	191	93	0	1	568	-	275
12	Lines of credit committed to institutions	-	-	-	-	-	-	-	-
13	Unutilized portion of Overdraft, Loans and Advances	10	9	4	4	4	12	12	12
14	Letters of Credit/ Guarantees/Acceptances	621	1,449	216	358	-	453	-	-
15	Repo/Bills Rediscounted/Swaps/Forward contracts	138	-	-	64	-	-	-	-
16	Capital & Reserves	-	-	-	-	-	-	-	7,759
17	Retained Earnings + Current year profits	-	-	-	-	601	-	-	-
	Total (b)	5,099	4,600	1,191	1,050	1,230	3,502	593	9,898
	Gap = (a) - (b)	4,008	(223)	1,676	383	(229)	(1,962)	965	(7,921)
	Cumulative Gap	4,008	3,784	5,460	5,842	5,613	3,651	4,617	(3,304)
	Cumulative Liabilities	5,099	9,700	10,890	11,941	13,171	16,672	17,265	27,163
	Cumulative Gap as a % of Cumulative Liabilities	79%	39%	50%	49%	43%	22%	27%	-12%

Maturities of Assets and Liabilities (MAL)
(Currency - USD mio)
As at 31 Dec 2018

No.	Heads of Accounts Item	Upto 1 month	1 - 3 Months	3 - 6 Months	6 - 9 Months	9 - 12 Months	1 - 3 Years	3 - 5 Years	Over 5 Years
A	Inflows								
1	Cash on Hand	0.0	-	-	-	-	-	-	-
2	Deposits with CBSL	-	-	-	-	-	-	-	-
3	Balances due from Head Office, Affiliates and Own branches	26.0	-	-	-	-	-	-	-
4	Balances due from Other Banks	-	-	-	-	-	-	-	-
5	Investments (Net of provisions)	-	20.0	-	-	-	19.8	-	-
6	Bills of Exchange	-	-	-	-	-	-	-	-
7	Overdraft	0.5	0.5	0.5	0.5	0.5	1.5	1.5	1.5
8	Loans and Advances	12.3	-	-	-	-	-	-	-
9	NPLs	-	-	-	-	-	-	-	-
10	Net Inter-Branch Transactions	-	-	-	-	-	-	-	-
11	Other Assets	0.5	0.3	-	-	-	-	-	-
12	Lines of credit committed from institutions	-	-	-	-	-	-	-	-
13	Other	-	-	-	-	-	-	-	-
14	FX FWD Contracts- BUY	0.9	-	-	0.4	-	-	-	-
	Total (a)	40.3	20.8	0.5	0.9	0.5	21.3	1.5	1.5
B	Outflows								
1	Demand Deposits	3.0	3.0	2.2	1.5	1.5	-	-	3.7
2	Savings Deposits	0	0	0	0	0	0	0	0
3	Balances due to Head Office/Affiliates/Own Branches	18.1	20.0	-	-	-	20.0	-	-
4	Balances due from Other Banks	-	-	-	-	-	-	-	-
5	Time Deposits	-	-	-	-	-	-	-	-
6	Certificates of Deposits, Borrowings & Bonds	-	-	-	-	-	-	-	-
7	Net Inter-branch Transactions	-	-	-	-	-	-	-	-
8	Bills Payable	-	-	-	-	-	-	-	-
9	Interest Payable	0.5	-	-	-	-	-	-	-
10	Provisions other than for loan losses and depreciation in the value of investment portfolio	-	-	-	-	-	-	-	-
11	Other Liabilities	1.7	-	-	-	-	-	-	-
12	Lines of credit committed to institutions	-	-	-	-	-	-	-	-
13	Unutilized portion of Overdraft, Loans and Advances	-	-	-	-	-	-	-	-
14	Letters of Credit/ Guarantees/Acceptances	5.4	8.5	8.3	3.2	-	4.1	-	6.3
15	Repo/Bills Rediscounted/Swaps/Forward contracts	-	-	-	0.3	-	-	-	-
16	Capital & Reserves	-	-	-	-	-	-	-	9.1
17	Retained Earnings +current year profits	-	-	-	-	3.2	-	-	-
	Total (b)	28.7	31.5	10.5	5.0	4.8	24.3	0.2	19.3
	Gap = (a) - (b)	11.6	(10.7)	(10.0)	(4.1)	(4.2)	(3.0)	1.3	(17.8)
	Cumulative Gap	11.6	0.9	(9.1)	(13.1)	(17.4)	(20.3)	(19.0)	(36.8)
	Cumulative Liabilities	28.7	60.3	70.8	75.8	80.5	104.6	105.0	124.3
	Cumulative Gap as a % of Cumulative Liabilities	40%	2%	-13%	-17%	-22%	-19%	-18%	-30%

iv) Operational Risk

a) Major operational viz. system or human, failures and financial losses incurred by the bank due to such failures during the reporting period.

There have been no major operational viz. system or human, failures and financial losses incurred by the bank due to such failures during the reporting period. Only One OR Loss event with Gross Loss amounting to EUR 8.8k reported in Jun-18 relating to theft of cash in transit handled by Cash Management-vendor. However, the entire loss amount has been recovered from the vendor through their insurance and hence, the "Net OR Loss" stands 'Nil' for this OR event. No other OR events were reported for FY-18

b) Details of activities that have been outsourced together with parties and basis for payment for such services.

Deutsche Bank is involved in Outsourcing which involves procurement of activities, functions or processes from vendors in connection with the execution of banking transactions, financial services or other typical activity of a DB Legal Entity which would otherwise be carried out by the outsourcing DB Legal Entity. DB Colombo also is benefitting from services provided via other DB entities within DB Group.

With respect to activities outsourced locally, a few non-core activities have been outsourced to third party vendors. Such activities are performed within the DB Colombo premises under the supervision of DB

Colombo staff excluding cash pick-up, document archival, and processing of payroll which are handled outside DB Colombo premises.

With reference to locally performed activities by third parties, payments are made on the basis of duties performed and rates have been negotiated between the bank and vendors. Payments are based on the scope of work delivered.

c) Details of due diligence tests of third party service providers.

Deutsche Bank carries out due diligence tests on the third party service providers globally/ regionally for the activities handled at the Regional Smart Sourcing Centers located in major Hubs.
With regard to locally outsourced activities, necessary due diligence tests are carried out on an annual basis covering corporate records, shareholder information, business contracts, legal and financial data, management/ staff review, litigation, audit, filing , insurance, business continuity etc.

V) Interest Rate risk in the Banking Book (IRRBB)

As per DB global policy, only Corporate Banking and Securities division (CB&S) is allowed to run market risk. Market risk for Global Transaction Banking (GTB) i.e. all Non CB&S divisions (including interest rate risk) is transferred to CB&S via internal pricing mechanism. No interest rate risk run in banking book by Non CB&S divisions. This process was followed till November 2016. As management decided to close CB&S division for few countries (including Colombo), process was discontinued in Colombo from end of November 2016. Market Risk limits for CB&S was withdrawn. GTB is allowed to access FX market to facilitate clients flows but GTB is not allowed to run FX risk. GTB interest rate risk covered with pool desk via transfer pricing mechanism. GTB not allowed to run interest rate risk. However, there may be small residual non material FX or interest rate risk will remain on overnight basis while covering and facilitating client flows. Pool desk FX / interest rate risk are marked to market on daily basis and managed on the basis of Value at Risk.

CAPITAL

Main features of Regulatory Capital Instruments

Description of the Capital Instrument	Dec 31, 2018	Dec 31, 2017
Assigned Capital		
DB Colombo, being a branch of Deutsche Bank AG Frankfurt, is provided assigned capital to support both business requirements and maintain minimum regulatory capital requirements. It is consequently governed by the laws and regulations of the Central Bank of Sri Lanka.		
Amount Recognised in Regulatory Capital (in LKR '000 as at the Reporting Date)	4,410,461	4,410,461
Accounting Classification	Equity	Equity
Reserve Fund		
This represents accumulated annual transfer of 5 % of profits after tax as required under Section 20 (1) of the Banking Act No. 30 of 1988.		
Amount Recognised in Regulatory Capital (in LKR '000 as at the Reporting Date)	641,506	619,600
Accounting Classification	Equity	Equity
Retained Earnings		
This represents all unremitted /audited profits of DB Colombo		
Amount Recognised in Regulatory Capital (in LKR '000 as at the Reporting Date)	1,126,404	2,152,607
Accounting Classification	Equity	Equity
Accumulated Other Comprehensive Income (OCI)		
This represents reserves created on changes in Fair Value of Available-for-Sale instruments, Acturial loss on defined benefit plans and related taxes.		
Amount Recognised in Regulatory Capital (in LKR '000 as at the Reporting Date)	-	-
Accounting Classification	Equity	Equity
General and other Disclosed Reserves		
This represents all amounts due to DB Group which cannot be paid due to the threshold imposed by the Central Bank of Sri Lanka. Unpaid amounts have been transferred to a "Special Reserve" with due approval from the regulators.		
Amount Recognised in Regulatory Capital (in LKR '000 as at the Reporting Date)	3,743,213	3,743,213
Accounting Classification	Equity	Equity

Basel III Capital Adequacy and Computation of Capital Ratios

in LKR '000

Item	Reporting Period Dec 31, 2018	Previous Reporting Period Dec 31, 2017
Common Equity Tier 1 (CET1) Capital after Adjustments	9,934,623	10,913,782
Common Equity Tier 1 (CET1) Capital	9,921,584	10,925,881
Equity Capital (Stated Capital)/Assigned Capital	4,410,461	4,410,461
Reserve Fund	641,506	619,600
Published Retained Earnings/(Accumulated Retained Losses) *	1,126,404	2,152,607
Published Accumulated Other Comprehensive Income (OCI)	-	-
General and other Disclosed Reserves	3,743,213	3,743,213
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	13,039	(12,099)
Goodwill (net)	-	-
Intangible Assets (net)	-	-
Others (Deferred Tax Assets, Vostro)	13,039	(12,099)
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	-	-
Tier 2 Capital	-	-
Qualifying Tier 2 Capital Instruments	-	-
Revaluation Gains	-	-
Loan Loss Provisions	-	-
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	9,934,623	10,913,782
Total Tier 1 Capital	9,934,623	10,913,782
Total Capital	9,934,623	10,913,782

in LKR '000

Item	Reporting Period Dec 31, 2018	Previous Reporting Period Dec 31, 2017
Total Risk Weighted Assets (RWA)	27,140,456	21,123,917
RWAs for Credit Risk	21,274,779	16,389,123
RWAs for Market Risk	1,732,817	335,004
RWAs for Operational Risk	4,132,861	4,399,789
CET1 Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	36.60%	51.67%
of which: Capital Conservation Buffer (%)	1.875%	1.25%
of which: Countercyclical Buffer (%)	-	-
of which: Capital Surcharge on D-SIBs (%)	-	-
Total Tier 1 Capital Ratio (%)	36.60%	51.67%
Total Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	36.60%	51.67%
of which: Capital Conservation Buffer (%)	1.875%	1.25%
of which: Countercyclical Buffer (%)	-	-
of which: Capital Surcharge on D-SIBs (%)	-	-

Summary discussion on adequacy/meeting current and future capital requirements

(a) Overview of DB Colombo's capital planning and assessment process:

Capital management represents a fundamental risk management process at DB Colombo as effective management of the capital base ensures the overall financial stability of the firm through a forward-looking adequacy assessment which provides protection to absorb the potential impacts of material unforeseen and potentially adverse events on DB Colombo's operations and its overall financial profile. DB Colombo focuses on long-term stability, positioning itself to build and invest in market-leading businesses, even in a highly stressed environment.

DB Colombo's capital plan is an integral part of the overall strategic plan which also contains the liquidity, funding plan and the risk and capital demand plan. The overall strategic plan translates individual business lines strategies and strategic decisions (which clients should be served with which products in which regions?) into financial results. The strategic plan is based on assumptions regarding the future development of the banking market and revenue pools, expected client behaviours and needs and DB Colombo's relative strengths and capabilities to serve the clients in a competitive environment. The strategic plan is developed annually with a 5 year planning horizon and holds detailed P&L and balance sheet information.

The Branch Management Board (BmB) defines the local Business and Risk Strategy (BRS), including the Risk Appetite, that are aligned to DB Colombo strategic plans as well as are in line with local regulatory requirements. The BRS articulates strategies by business units and risk types as well as any IT or infrastructure investment required to support business strategies. These reflect discussed strategic priorities, strategic initiatives and organisational structural changes (infrastructure capacities, human resources and outsourced activities, etc) that are necessary to achieve the objectives and ensure compliance with current and upcoming regulatory requirements.

The BRS translates DB Colombo's long-term strategy into measurable short to mid-term financial targets which aims at identifying optimal growth options considering the risk involved and the allocation of available capital resources to promote sustainable performance.

The planning process allows DB Colombo to:

- Set earnings and key risk and capital adequacy assessment in line with the Bank's strategic focus and business plans;
- Assess DB Colombo's capital adequacy with regard to internal and external requirements (i.e. regulatory and economic capital); and
- Ensure alignment with the Group plan and achieve a harmonised and pro-active capital planning with the Group strategies DB Colombo local BRS plans is linked with DB Group general divisional planning assumptions.

(b) Material risk exposures in line with strategic plan;

We face a variety of risks as a result of our business activities; these risks include credit risk, market risk, business risk, liquidity risk, operational risk and reputational risk as described in the following sections below. Our risk identification and assessment processes utilize our three lines of defense (3LoD) operating model with the first line identifying the key risks and the second line complementing and aggregating identified risks into our global risk type taxonomy and assessing identified risks for their materiality. Operating processes are in place across the organization to capture relevant measures and indicators. The core aim of all processes is to provide adequate transparency and understanding of existing and emerging risk issues, and to ensure a holistic cross-risk perspective. We update the risk inventory at least once a year or at other times if needed, by running a risk identification and materiality assessment process.

We categorize our material risks into financial risks and non-financial risks. Financial risks comprise credit risk, market risk, liquidity risk and business (strategic) risk. Non-financial risks comprise operational risks and reputational risks. For all material risks common risk management standards apply.

Credit risk, market risk and operational risk attract regulatory capital. As part of our internal capital adequacy assessment process, we calculate the amount of economic capital for credit, market, operational and business risk to cover risks generated from our business activities taking into account diversification effects across those risk types. Furthermore, our economic capital framework embeds additional risks, e.g. reputational risk and refinancing risk, for which no dedicated economic capital models exist. We exclude liquidity risk from economic capital.

Risk management function identifies the relevant risk types by taking the Group Risk Taxonomy as benchmark. DB Colombo also reviews the local regulations and other related sources to ensure that every relevant risk type is identified.

(c) Current and future capital needs, anticipated capital expenditure and desirable capital level;

The BRS translates DB Colombo's long-term strategy into measurable short to mid-term financial targets which aims at identifying optimal growth options considering the risk involved and the allocation of available capital resources to promote sustainable performance.

The planning process allows DB Colombo to:

- Set earnings and key risk and capital adequacy assessment in line with the Bank's strategic focus and business plans;
- Assess DB Colombo's capital adequacy with regard to internal and external requirements (i.e. regulatory and economic capital);

The strategic plan developed in the BRS has to comply with all regulatory minimum requirements as well as with other targets and expectations set Group. Therefore, at the beginning of the strategic planning process, targets are set for various Key Performance Indicators (KPIs) which the strategic plan has to meet. These KPIs include key risk metrics (CET1 ratio, Total capital ratio, ECA ratio, LCR and SNLP) as well as profitability and efficiency metrics (e.g. cost-income ratio).

When determining the plan targets for these KPI's and the trajectory over time, DB Colombo's risk appetite serves as a safeguard that DB Colombo's capitalization/funding composition meet regulatory minimum requirements senior risk staff is heavily involved in the assessment and review of the BRS. Risk experts engage with the business to understand and validate business strategies and associated risk taking and limits. Additional regulatory driven KPIs outside the risk appetite are considered for both capital (e.g.CCB requirements) and liquidity. DB Colombo constantly analyses the external environment in which it operates and assesses the implications on the bank. Changes in regulatory directives /consultation papers issued by the Central Bank of Sri Lanka are scrutinized and the results of these assessments then inform the selection of relevant KPIs for target setting.

DB Colombo calculates and monitors its capital adequacy position against both Basel Pillar 1 and Pillar 2 targets under the ICAAP framework prescribed by the Central Bank of Sri Lanka. Under Pillar 2, DB Colombo assesses the capital requirements in terms of Economic Capital (EC) Adequacy under ICAAP.

DB Colombo assesses capital adequacy requirements on both a Pillar 1 and Pillar 2 basis.

Pillar 1: Regulatory capital adequacy is measured by CET1 ratio, Total Tier I ratio and the Total Capital Ratio – which includes the capital conservation buffer. The objective is to be at or above DB Colombo's target capital ratio and to ensure that DB Colombo is adequately capitalised for regulatory purposes on a forward-looking basis.

Pillar 2: Internal capital adequacy is measured by the Economic Capital Adequacy (ECA) Ratio. The DB Colombo ICAAP is designed to provide an assessment of capital needs on a forward-looking basis. The ICAAP framework and policies of DB Colombo are aimed at achieving the following capital management objectives:

- ensuring that the Bank is adequately capitalised for economic purposes on a forward-looking basis;
- maintaining an optimal capital structure that takes into consideration shareholder interests;
- promoting the efficient use of capital;
- linking and aligning the business strategy, risk and return dimensions through the annual strategic plan process; and
- ensuring appropriate monitoring through the quarterly Risk & Capital Profile report and a robust governance framework.

The ICAAP is particularly designed to provide an outlook on Economic Capital demand and thus represents a formal basis for the assessment of capital needs. The results serve as a benchmark against which actual capital development is compared by the Branch Management Board (BmB).

(d) Discussion on possible internal and external capital sources;

Responsibility for management of the capital supply resides with the Local ALCO. It ensures compliance with regulatory and group-internal capital requirements. If a potential capital shortfall (or risk of shortfall) is identified, mitigating action is considered in coordination with DB Group (e.g. retention of profits, issuance of subordinated debt, capital injections). Treasury ensures, in close alignment with the local BmB, local Finance and Group Tax the most efficient and sufficient capital mix from a Group as well as local (internal) perspective.

The Group Investment Committee is mandated by the Group management board to review all capital requests for subsidiaries and branches.

(e) Assessment of the adequacy of bank's capital commensurate with all material risks and other capital needs in relation to its current and future activities;

DB Colombo subjects all risk types covered under its EC concept, as well as liquidity risk, to regular stress tests. At Group level, the Stress Testing Forum is responsible for aligning scenario definitions between DB Group and legal entities according to the Group Stress Testing Policy.

Stress testing is an integral part of DB Colombo's risk management and links to all other risk management practices:

- The key **risk appetite metrics** are tested under stress with a dedicated escalation in case of a breach of the defined thresholds.
- The **risk identification** process leads to a risk inventory of relevant risks which are also considered under stress.
- The standard **risk measurement** models are the basis for many of the stress testing models e.g. EC models.
- The **planning** process is also influenced by the stress test results: capital and liquidity plans are regularly tested under stressed conditions to assess the resilience of DB Colombo's strategy against the risk appetite.
- The stressed key risk appetite metrics are also **reported and monitored** and form the basis for the **risk management** and mitigation.

Stress tests provide a tool to ensure capital adequacy even in future stress scenarios. For this, DB Colombo is assessing the impact of reasonably likely stress scenarios on its EC demand, its capital base and its liquidity position. Stress tests are considered a management information tool to decide if in line with risk management and recovery governance if recovery measures may be necessary to improve capital and liquidity position.