DEUTSCHE BANK AG – COLOMBO BRANCH
FINANCIAL STATEMENTS AND
BASEL III DISCLOSURES
FOR THE YEAR ENDED
31ST DECEMBER 2019

DEUTSCHE BANK AG – COLOMBO BRANCH

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DEUTSCHE BANK AG – COLOMBO BRANCH
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31^{ST} DECEMBER 2019

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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, 2019, and the Income Statement, Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies set out on pages 03 to 85.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Branch as at December 31, 2019, 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.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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.

Chartered Accountants
Colombo, Sri Lanka
31 March 2020

DEUTSCHE BANK AG - COLOMBO BRANCH
INCOME STATEMENT

For the year ended 31st December	Note	2019 Rs.	2018 Rs.
Gross income	6	**3,867,234,503**	**3,634,875,940**
Interest income		2,876,692,111	2,283,201,845
Interest expenses		756,311,156	531,083,102
Net interest income	7	**2,120,380,955**	**1,752,118,743**
Fee and commission income		353,721,773	562,491,617
Fee and commission expenses		23,479,438	15,236,938
Net fee and commission income	8	**330,242,335**	**547,254,678**
Net gain from trading	9	601,140,684	720,427,812
Net other operating income	10	35,679,935	68,754,666
Total operating income		**3,087,443,909**	**3,088,555,899**
Impairment (charge)/reversal	11	(44,848,549)	409,053
Net operating income		**3,042,595,360**	**3,088,964,952**
Operating expenses			
Personnel expenses	12	441,929,640	425,405,159
Depreciation	24	69,784,915	26,041,113
Other expenses	13	1,351,205,769	1,427,320,741
Operating profit before Value Added Tax (VAT) & Nationa Building Tax (NBT) on financial services		**1,179,675,036**	**1,210,197,939**
Value Added Tax (VAT) on financial services		210,647,889	185,513,321
Nation Building Tax (NBT) on financial services		26,045,233	24,854,612
Operating profit after Value Added Tax (VAT) & Nationa Building Tax (NBT) on financial services		**942,981,914**	**999,830,006**
Income tax (reversal)/expense	14	(284,955,995)	561,659,537
Profit for the year		**1,227,937,909**	**438,170,468**

The annexed notes to the financial statements form an integral part of these financial statements.

DEUTSCHE BANK AG - COLOMBO BRANCH
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31st December	2019	2018
	Rs.	Rs.
Profit for the year	1,227,937,909	438,170,468
Items that will be reclassified to income statement		
Net gains/(losses) on investments in debt instruments measured at fair value through other comprehensive income	-	(66,842,592)
Impairment charge/(reversal) relating to Sri Lanka Development Bonds (Note 22.c.)	47,781,531	(2,503,404)
Less: Tax expense relating to items that will be reclassified to income statement	-	5,174,919
	47,781,531	**(64,171,077)**
Items that will not be reclassified to income statement		
(Loss)/ Gains on translating the financial statement of FCBU	(15,972,352)	359,841,647
Change in fair value on investments in equity instruments designated at fair value through other comprehensive income	40,738,984	-
Related tax	(11,406,916)	-
Re-measurement of post-employment benefit obligations	17,264,106	(1,729,943)
Related tax	(4,833,950)	484,384
	25,789,872	**358,596,088**
Other comprehensive income for the year, net of taxes	**73,571,403**	**294,425,011**
Total comprehensive income for the year, net of taxes	**1,301,509,312**	**732,595,479**

DEUTSCHE BANK AG - COLOMBO BRANCH
STATEMENT OF FINANCIAL POSITION

As at 31st December	Note	2019 Rs.	2018 Rs.
Assets			
Cash and cash equivalents	15	115,867,718	67,662,700
Balances with Central Bank	16	7,676,645,448	2,607,526,990
Placements with banks	17	751,258,420	3,200,611,741
Placements with branches		3,875,053,739	3,659,242,958
Derivative financial instruments	18	37,878,127	7,553,987
Group balances receivables	19	1,706,880,210	2,382,315,191
Financial assets measured at fair value through profit or loss (FVTPL)	20	6,799,440,126	-
Financial assets at amortized cost - Loans and advances to customers	21	14,639,695,090	11,977,224,364
Financial assets measured at fair value through other comprehensive income (FVOCI)	22	13,740,777,811	15,299,739,626
Property, plant and equipment	23	172,235,260	50,388,409
Deferred tax assets	24	-	24,824,126
Other assets	25	665,587,186	1,838,959,597
Total assets		**50,181,319,135**	**41,116,049,689**
Liabilities			
Due to branches	26	17,816,192,003	11,773,090,094
Derivative financial instruments	27	40,243,365	5,582,806
Financial liabilities at amortized cost - Due to depositors	28	16,714,490,579	15,331,658,192
Employee benefit	29	65,170,001	113,989,061
Current tax liabilities	30	138,763,183	586,021,807
Deferred tax liabilities	24	28,956,365	-
Other liabilities	31	217,334,264	422,929,062
Group balance payable	32	3,157,722,201	2,181,840,805
Total liabilities		**38,178,871,961**	**30,415,111,827**
Equity			
Assigned capital	33	4,410,461,270	4,410,461,270
Statutory reserve fund	34	702,905,584	641,508,689
Retained earnings	35	2,305,422,853	1,126,451,683
Other reserves	36	4,583,657,467	4,522,516,220
Total shareholders' equity		**12,002,447,174**	**10,700,937,862**
Total equity and liabilities		**50,181,319,135**	**41,116,049,689**
Contingent liabilities and commitments	37	**28,435,995,682**	**22,663,852,082**

The annexed notes to the financial statements form an integral part of these 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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Chief Country Officer and GTB Head Sri Lanka
Vikas Arora

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Head of Finance
Somasuriyasingham Janarthanan

31 March 2020
Colombo

KPMG Chartered Accountants

DEUTSCHE BANK AG - COLOMBO BRANCH

STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December 2019	Assigned Capital	Reserves						Total equity
		Statutory Reserve Fund	Fair Value 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 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	11,370,216,786
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)	-	(10,598,383)
Adjusted balance as of 1st January 2018	4,410,461,270	619,600,166	53,688,375	2,196,733,196	309,406,775	120,537,592	3,743,212,907	11,453,640,281
Total comprehensive income for the year								
Profit for the year (net of tax)	-	-	-	438,170,468	-	-	-	438,170,468
Changes in fair value of FVOCI	-	-	(66,842,592)	-	-	-	-	(66,842,592)
Impairment of FVOCI 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 translating the financial statements of the FCBU	-	-	-	-	214,227,630	145,614,017	-	359,841,647
Total comprehensive income for the year	-	-	(64,171,077)	436,924,909	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)
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	(10,482,702)	1,126,451,683	523,634,406	266,151,609	3,743,212,907	10,700,937,861
Balance as of 1st January 2019	4,410,461,270	641,508,689	(10,482,702)	1,126,451,683	523,634,406	266,151,609	3,743,212,907	10,700,937,862
Total comprehensive income for the year								-
Profit for the year (net of tax)	-	-	-	1,227,937,909	-	-	-	1,227,937,909
Changes in fair value of FVOCI	-	-	40,738,984	-	-	-	-	40,738,984
Impairment of FVOCI Investments	-	-	47,781,531	-	-	-	-	47,781,531
Actuarial gain in defined benefits plan	-	-	-	17,264,106	-	-	-	17,264,106
Tax on other comprehensive income	-	-	(11,406,916)	(4,833,950)	-	-	-	(16,240,866)
Loss translating the financial statement of the FCBU	-	-	-	-	(11,236,982)	(4,735,370)	-	(15,972,352)
Total comprehensive income for the year	-	-	77,113,599	1,240,368,065	(11,236,982)	(4,735,370)	-	1,301,509,312
Transactions with equity holders, recognized directly in equity								
Transfers to reserves during the year	-	61,396,895	-	(61,396,895)	-	-	-	-
Total transactions with equity holders	-	61,396,895	-	(61,396,895)	-	-	-	-
Balance as at 31st December 2019	4,410,461,270	702,905,584	66,630,897	2,305,422,853	512,397,424	261,416,239	3,743,212,907	12,002,447,174

STATEMENT CASH FLOW

For the year ended 31st December	Note	2019 Rs.	2018 Rs.
Cash flows from operating activities			
Profit before taxation		942,981,914	999,830,006
Adjustment for:			
Non-cash items included in profits before tax	43	1,227,773,417	943,168,909
Change in operating assets	44	(8,632,968,621)	(7,229,252,482)
Change in operating liabilities	45	7,112,229,530	6,843,284,648
Dividend income		(3,046,550)	(2,515,500)
Net unrealised gain/(loss) from translation of financial statement of foreign operation		(15,972,352)	357,415,563
Cash generated from operating activities		**630,997,338**	**1,911,931,144**
Contribution paid to defined benefit plans		(48,803,762)	(10,747,460)
Income tax paid		(373,787,314)	(517,450,589)
Net cash generated from operating activities		**208,406,262**	**1,383,733,095**
Cash flows from investing activities			
Purchase of property, plant and equipment		(163,247,794)	(11,666,491)
Dividend received from investment		3,046,550	2,515,500
Net cash used in investing activities		**(160,201,244)**	**(9,150,991)**
Cash flows from financing activities			
Profit transfer to head office		-	(1,485,297,899)
Net cash used in financing activities		**-**	**(1,485,297,899)**
Net decrease in cash & cash equivalents		48,205,018	(110,715,795)
Cash and cash equivalents at the beginning of the year		67,662,700	178,378,495
Cash and cash equivalents at the end of the year	15	**115,867,718**	**67,662,700**

Figures in brackets indicate deductions

The annexed notes to the financial statements form an integral part of these financial statements.

KPMG Chartered Accountants

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 2019 is 66 while the total headcount stood at 90. (2018 – 66-permanent staff)

1.4 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 and with the requirements of the Banking Act No 30 of 1988 and amendments thereto.

1.5 Approval of Financial Statements by the Management

These Financial Statements were authorized for issue by the Management on 31 March 2020.

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.

This is the first set of the Branch's annual financial statements in which SLFRS 16 on "Leases" has been applied. The related changes to significant accounting policies are described in Note 5.

These Financial Statements include the following components:

- an Income Statement and Statement of Profit or Loss and Other 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.

Going concern assessment of the Branch

The management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future.

Furthermore, the Management is not aware of any material uncertainties that may cast significant doubt upon the Branch's ability to continue as a going concern. Therefore, the financial statements of the Branch continue to be prepared on a going concern.

2.2 Functional and presentation currency

These financial statements are presented in Sri Lankan Rupees (LKR), which is the Branch's functional currency.
There was no change in the Branch's presentation and functional currency during the year under review.

2.3 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 assets measured at fair value through profit or loss	Fair Value	3.3.1.1.5	15
Derivative assets and derivative liabilities held for risk management	Fair Value	3.3.1.1.5 & 3.3.3.2.2	15 & 22
Financial Assets measured at fair value through other comprehensive income	Fair Value	3.3.1.1.4	15
Non-financial assets/liabilities			
Employee benefits	Present value of the defined benefit pension obligation less the net total of the pension assets	3.7.3	31

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

2.4 Basis of amalgamation

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.

2.5 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.

2.6 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'.

2.7 Comparative Information

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

The Branch applied SLFRS 16 – "Leases" using the modified retrospective approach, under which no cumulative effect of initial application is recognized in retained earnings as at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under LKAS 17 and related interpretations. The details of the changes in accounting policies are disclosed in Note 3. Additionally, the disclosure requirements in SLFRS 16 have not generally been applied to comparative information.

2.8 Use of estimates and judgments

The preparation of financial statements in conformity with LKAS/SLFRS 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.

2.8.1 Judgments

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

— Note 3.3.1.2 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

— Note 3.3.2.1 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

— Going Concern: the Management has 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

2.8.2 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:

Note 3.3.2 :impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward looking information.

Note 3.3.4 :determination of the fair value of financial instruments with significant unobservable inputs.

Note 3.7.3 : measurement of defined benefit obligations: key actuarial assumptions.

Note 3.2.1.b : recognition of deferred tax assets: availability of future taxable profit against which carry forward tax losses can be utilized.

Note 3.8 : recognition and measurement of contingencies: key assumptions about the likelihood and magnitude of an outflow of resources.

2.9 Off-setting

Income and expenses are presented on a net basis only when permitted under Sri Lanka Accounting Standards (SLFRSs/LKASs), or for gains and losses arising from a FCBU of similar transactions such as in the FCBU's trading activity.

2.10 Changes in Accounting Policies

The Branch has consistently applied the accounting policies as set out in Notes 03 on pages 12 to 36 to all periods presented in these financial statements

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

3.1.1 Foreign currency transactions

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.

3.1.2 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 amalgamation 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.

3.2 Taxation

3.2.1 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.

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,

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

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.

3.2.2 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 amendment 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. NBT was abolished from December 2019 onwards.

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. This tax was abolished by the government with the effect from 1st January 2020.

e) Debt Repayment Levy (DRL)

With effect from 1 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 calculation of VAT on financial services before deducting the VAT and NBT on financial services. This Levy was abolished by the government with the effect from 1st January 2020.

ASSETS AND BASES OF THEIR VALUATION

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

3.3.1.1 Financial assets

3.3.1.1.1 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.

3.3.1.1.2 Classification

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)

3.3.1.1.3 Financial assets measured at amortized costs

A financial asset is classified and subsequently measured at amortized cost if the financial asset is held in a Hold to Collect business model and the contractual cash flows are SPPI. Under this measurement category, the financial asset is measured at fair value at initial recognition. Subsequently the carrying amount is reduced for principal payments, plus or minus the cumulative amortization using the effective interest method. Financial assets measured at amortized cost are recognized on a settlement date basis.

3.3.1.1.4 Financial assets at fair value through other comprehensive income

A financial asset shall be classified and measured at Fair Value through Other Comprehensive Income ("FVOCI"), if the financial asset is held in a Hold to Collect and Sell business model and the contractual cash flows are SPPI, unless designated under the fair value option.

Under FVOCI, a financial asset is measured at its fair value with any changes being recognized in Other Comprehensive Income ("OCI") and is assessed for impairment under the SLFRS 9 expected credit loss model where provisions are recorded through profit or loss are recognized based on expectations of potential credit losses. The interest component by using the effective interest method. The amortization of premiums and accretion of discounts are recorded in net interest income. Realized gains and losses are reported in net gains (losses) on financial assets at FVOCI. Generally, the weighted-average cost method is used to determine the cost of FVOCI financial assets.
Financial assets classified as FVOCI are recognized or derecognized on trade date. Trade date is the date on which the Branch commits to purchase or sell the asset.

3.3.1.1.5 Financial assets at fair value through profit or loss

Financial assets are classified at fair value through profit or loss if they are held in the other business model because they are either held for trading or because they do not meet the criteria for Hold to Collect or Hold to Collect and Sell. In addition, it includes financial assets that meet the criteria for Hold to Collect or Hold to Collect and Sell business model, but the financial asset fails SPPI or where the Branch designated the financial assets under the fair value option. Financial assets classified as Financial Assets at fair value through profit or loss are measured at fair value with realized and unrealized gains and losses 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 and dividends on equity instruments are presented in Interest and Similar Income.

Financial assets classified at fair value through profit or loss are recognized or derecognized on trade date. Trade date is the date on which the Group commits to purchase or sell the asset.

3.3.1.2 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.

3.3.1.3 Reclassification

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.

3.3.1.4 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.

3.3.1.5 Modifications of financial assets

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 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.

3.3.1.5.1 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.

3.3.1.6 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 16 to the Financial Statements.

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

3.3.1.7 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.

3.3.2 Identification and measurement of impairment

3.3.2.1 Recognition of impairment of financial assets

The determination of impairment losses an expected credit loss ("ECL") model under SLFRS 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

SLFRS 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 Branch 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 Branch 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 Branch 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 Branch'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 SLFRS 9, when determining whether the credit risk (i.e., risk of default) of a Financial Asset has increased significantly since initial recognition, the Branch considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes quantitative and qualitative information based on the Branch'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).

Credit impaired financial assets in Stage 3

The Branch has aligned its definition of credit impaired under SLFRS 9 to when a Financial Asset has defaulted for regulatory purposes, However the Branch does not have any Assets coming under Stage 3 category.

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 mitigate such as collateral or guarantees. Specifically, a Financial Asset is credit impaired and in Stage 3 when:

– The Branch considers the obligor is unlikely to pay its credit obligations to the Branch. 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 Branch 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 Branch'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 Branch under the contract; and the cash flows that the Branch 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 Branch'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.

Collateral for financial assets considered in the impairment analysis

SLFRS 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.

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.

3.3.2.2 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.

3.3.2.3 Write-off of financial assets

The Branch 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 Branch considers all relevant information in making this determination, including but not limited to:

- Foreclosure actions taken by the Branch 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 Branch forfeiting its legal right to recover the debt.

3.3.3 Financial liabilities

3.3.3.1 Recognition and measurement of financial liabilities

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,

3.3.3.2 Classification and subsequent measurement of financial liabilities

The subsequent measurement of financial liabilities depends on their classification.

3.3.3.2.1 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 Income Statement. 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.

3.3.3.2.2 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.

3.3.3.3 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 are measured at their amortized cost using the effective interest method, except where the Branch designates liabilities at fair value through profit or loss.

3.3.3.4 De-recognition of Financial Liabilities

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

3.3.4 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.

3.3.4.1 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.

3.3.5 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.

3.3.6 Impairment of non-financial assets

The carrying amounts of the Branch's non-financial 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.

3.4 Property, plant and equipment

3.4.1 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.

3.4.2 Subseqnent 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.

3.4.3 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.

3.4.4 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.

3.5 Leases

The Branch has applied SLFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under LKAS 17 and IFRIC 4. The details of accounting policies under LKAS 17 and IFRIC 4 are disclosed separately.

The Branch enters into lease contracts, predominantly for land and buildings, as a lessee. Other categories are company cars and technical/IT equipment.

Policy applicable from 1 January 2019
At inception of a contract, the Branch assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Branch uses the definition of a lease in SLFRS 16.

This policy is applied to contracts entered into (or changed) on or after 1 January 2019.

3.5.1 As a lessee

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

The Branch recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Branch by the end of the lease term or the cost of the right-of-use asset reflects that the Branch will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

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

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

Accordingly, Branch discounted its lease payments at the 12 months SLIBOR rate of 11.81% as at 1 January 2019.

Lease payments included in the measurement of the lease liability comprise the following:
— fixed payments, including in-substance fixed payments;
— variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
— amounts expected to be payable under a residual value guarantee; and
— the exercise price under a purchase option that the Branch is reasonably certain to exercise, lease payments in an optional renewal period if the Branch is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Branch is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Branch's estimate of the amount expected to be payable under a residual value guarantee, if the Branch changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.
When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Branch presents right-of-use assets in 'property and equipment' and lease liabilities in 'other liabilities' in the statement of financial position.

3.5.2 Short-term leases and leases of low-value assets

The Branch has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Branch recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

3.5.3 As a lessor

At inception or on modification of a contract that contains a lease component, the Branch allocates the consideration in the contract to each lease component on the basis of their relative standalone prices.

When the Branch acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Branch makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Branch considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Branch is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Branch applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, then the Branch applies SLFRS 15 to allocate the consideration in the contract. The Branch applies the derecognition and impairment requirements in SLFRS 9 to the net investment in the lease. The Branch further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

The Branch recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of "other revenue".

Generally, the accounting policies applicable to the Branch as a lessor in the comparative period were not different from SLFRS 16.

Policy applicable prior to 1 January 2019

3.5.4 Determining whether an Arrangement Contains a Lease

At inception of an arrangement, the Branch determines whether the arrangement is or contains a lease.

At inception or on reassessment of an arrangement that contains a lease, the Branch separates payments and other consideration required by the arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Branch concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset; subsequently, the liability is reduced as payments are made and an imputed finance cost on the liability is recognised using the Branch's incremental borrowing rate.

3.5.5 Leased Assets

Leases of property, plant and equipment that transfer to the Branch substantially all of the risks and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognised in the Branch's statement of financial position.

3.5.6 Lease Payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease. Contingent rents, if any, are recognised as revenue in the period in which they are earned.
Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

3.6 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.

3.6.1 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 Branch 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.

3.7 Employee benefits

3.7.1 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.

3.7.2 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.

3.7.3 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.

3.7.3.1 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.

3.8 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

3.9 Interest income / expense

Effective interest rate

Interest income and expense are recognised in income statement using the effective interest method. The "effective interest rate" is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

the gross carrying amount of the financial asset; or

the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL. The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The "amortised cost" of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance. The "gross carrying amount of a financial asset" is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

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Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating-rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date on which amortisation of the hedge adjustment begins.

From 1 January 2018, with the adoption of Sri Lanka Accounting Standard – SLFRS 9 on "Financial Instruments" the Bank has aligned its interest recognition policy with internal risk management practices. As per the internal risk management policies of the Bank, the facilities are considered to be credit impaired when three or more instalments are in arrears and the Bank has estimated that the probability of recoverability of the interest income from such loan facilities are low. Accordingly the Bank discontinues recognition of interest income on such loan facilities and cash flows are assessed based on the amortised cost net of interest. If the asset is no longer credit impaired the calculation of interest income reverts to the gross basis.

3.10 Fee and Commission income / expense

Five-step revenue recognition model to the recognition of Commissions and Fee Income, under which income must be recognized when control of goods and services is transferred, hence the contractual performance obligations to the customer has been satisfied.

Accordingly, after a contract with a customer has been identified in the first step, the second step is to identify the performance obligation – or a series of distinct performance obligations – provided to the customer. The Branch must examine whether the service is capable of being distinct and is actually distinct within the context of the contract. A promised service is distinct if the customer can benefit from the service either on its own or together with other resources that are readily available to the customer, and the promise to transfer the service to the customer is separately identifiable from other promises in the contract. The amount of income is measured on the basis of the contractually agreed transaction price for the performance obligation defined in the contract. If a contract includes variable consideration, the Branch estimates the amount of consideration to which it will be entitled in exchange for transferring the promised goods or services to a customer. Income is recognized in profit and loss when the identified performance obligation has been satisfied.

Expenses that are directly related and incremental to the generation of Commissions and Fee Income are presented net in Commissions and Fee Income. This includes income and associated expense where the Branch contractually owns the performance obligation (i.e. as Principal) in relation to the service that gives rise to the revenue and associated expense.

3.11 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.

3.12 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.

3.13 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.

3.14 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.

3.15 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.

3.16 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, 2019. This new reporting structure was implemented from the third quarter 2019 onwards.

- Corporate Bank (CB)
- Investment Bank (IB)
- Private Bank (PB)
- Asset Management (AM)
- Capital Release Unit (CRU)
- Corporate & Other (C&O)

Of the above, only Corporate Bank & Investment Bank businesses are represented in Sri Lanka as at 31st December 2019.

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3.16.1 Corporate Bank (CB)

The Corporate Bank (CB) combines Deutsche Bank's Corporate Finance, Global Transaction Banking, Institutional Client Group and Research businesses. This new business division was created in the Branch 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.

3.16.2 Investment Bank (IB)

The Investment Bank (IB) combines Deutsche Bank's Fixed Income & Currencies Sales & Trading, which includes Global Credit Trading, Foreign Exchange, Rates and Emerging Markets Debt businesses.

3.16.3 Global Transaction Banking (GTB)

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

3.16.4 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.

3.16.5 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.

3.16.6 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).

3.16.7 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.

4. NEW ACCOUNTING STANDARDS ISSUED BUT NOT EFFECTIVE AS AT REPORTING DATE

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Branch has not early adopted them in preparing these financial statements.

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

- Amendments to References to Conceptual Framework in SLFRS Standards.
- Definition of a Business (Amendments to SLFRS 3).

For the year ended 31st December

5. Changes in significant accounting policies

5.1 SLFRS 16 - Leases

The Branch has initially applied SLFRS 16 - Leases from 1 January 2019.

The Branch applied SLFRS 16 using the modified retrospective approach, under which Right of Use of underlying asset (ROU asset) and lease liability were recognised at equal amounts as at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in SLFRS 16 have not been generally applied to comparative information.

A. Definition of a lease

Previously, the Branch determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 - Determining whether an Arrangement contains a Lease. The Branch now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 3.

On transition to SLFRS 16, the Branch elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Branch applied SLFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under LKAS 17 and IFRIC 4 were not reassessed for whether there is a lease under SLFRS 16. Therefore, the definition of a lease under SLFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

B. As a lessee

As a lessee, the Branch has a lease relating to property. The Branch previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Branch. Under SLFRS 16, the Branch recognizes right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet.

At commencement or on modification of a contract that contains a lease component, the Branch allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price.

However, for leases of property the Branch has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Branch's incremental borrowing rate as at 1 January 2019.

The Branch used a number of practical expedients when applying SLFRS 16 to leases previously classified as operating leases under LKAS 17. In particular, the Branch:

* On its assessment of whether leases are onerous under LKAS 37 on "Provisions, Contingent Liabilities and Contingent Assets" immediately before the date of initial application as an alternative to performing an impairment
* Did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
* Did not recognise right-of-use assets and liabilities for leases of low-value assets (i.e. IT equipment);
* Excluded initial direct costs from measuring the right-of-use asset at the date of initial application
* Used hindsight when determining the lease term;
* Used main operating building lease term for open ended lease arrangements.
* Applied a single discount rate to leases with similar characteristics.

C. As a lessor

For lease out under finance leases, Branch recognises an asset at an amount equal to the net investment in the lease. Lease payments received from operating leases are recognised as income on straight-line basis.

The Branch is not required to make any adjustments on transition to SLFRS 16 for leases in which it acts as a lessor.

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For the year ended 31st December

5. Changes in significant accountiug policies contd.

5.1 SLFRS 16 - Leases contd.

D. Impact on financial statements

On transition to SLFRS 16, the Branch recognized additional right-of-use assets and additional lease liabilities, recognizing the difference in retained earnings. The impact on transition is summarized below.

As at 1 January 2019	Rs.
Right-Of-Use assets – property, plant and equipment - (Note 23)	28,807,129
Lease liabilities - (Note 31.1)	28,807,129

When measuring lease liabilities for leases that were classified as operating leases, the Bank discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted average rate applied is 11.81%.

5.2 IFRIC Interpretation 23 - Uncertainty over income tax treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of LKAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of LKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

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

The Branch determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

The Branch applies significant judgement in identifying uncertainties over income tax treatments. Since the Branch operates in a complex environment, it assessed whether the Interpretation had an impact on its financial statements.

Upon adoption of the Interpretation, the Branch considered whether it has any uncertain tax positions and Branch determined that it is probable that its tax treatments will be accepted by the taxation authorities. The Interpretation did not have an impact on the financial statements of the Branch.

For the year ended 31st December	2019 Rs.	2018 Rs.
6. Gross income		
Interest income	2,876,692,111	2,283,201,845
Fee and commission income	353,721,773	562,491,617
Net gain from trading	601,140,684	720,427,812
Net other operating income	35,679,935	68,754,666
	3,867,234,503	**3,634,875,940**
7. Net interest income		
Interest income		
Placements with banks	439,431,171	403,267,308
Financial assets measured at fair value through profit or loss (FVTPL)	504,846,909	-
Financial assets at amortized cost - Loans and advances	1,076,868,009	723,802,100
Financial assets measured at fair value through other comprehensive income (FVOCI)	855,546,022	1,156,132,438
Total interest income	**2,876,692,111**	**2,283,201,845**
Interest expenses		
Due to banks	383,982,298	267,474,566
Financial liabilities at amortized cost - Due to depositors	372,328,858	263,608,536
Total interest expenses	**756,311,156**	**531,083,102**
Net interest income	**2,120,380,955**	**1,752,118,743**

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 at amortized cost - Loans and advances to customers	14,639,695,090	11,977,224,364
Financial assets measured at fair value through profit or loss (FVTPL)	6,799,440,126	-
Financial assets measured at fair value through other comprehensive income (FVOCI)	13,740,777,811	15,299,739,626
Total	**35,179,913,027**	**27,276,963,990**
Financial liabilities at amortized cost - Due to depositors	**16,714,490,579**	**15,331,658,192**
7 a. Net interest income from Sri Lanka Government securities		
Interest Income	1,360,392,931	1,156,132,497
Net interest income from Sri Lanka Government Securities	**1,360,392,931**	**1,156,132,497**
8. Net fee and commission income		
Fee and commission income (Note 8.1)	353,721,773	562,491,617
Fee and commission expenses	23,479,438	15,236,938
Net fee and commission income	**330,242,335**	**547,254,678**
8.1 Fee and commission income		
Trade and remittances	80,559,407	124,696,246
Guarantees	34,728,253	34,285,002
Other banking services	238,434,113	403,510,369
	353,721,773	**562,491,617**

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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.

8.2 Performance obligations and revenue recognition policy

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.

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

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under SLFRS 15
Retail and Corporate finance Service	The Branch provides lending services to retail and corporate customers, including provision other loan facilities. Transaction-based fees for interchange and loans are charged to the customer's account when the transaction takes place.	Income is recognized in profit and loss when the identified performance obligation has been satisfied.

For the year ended 31st December	2019 Rs.	2018 Rs.
9. Net gain from trading		
Foreign Exchange		
From Banks	509,961,504	664,746,206
From customers	36,679,684	52,617,699
Net unrealized forward (losses)/gains	(4,340,612)	3,063,906
Fixed income securities	53,376,458	-
Net loss from Financial instruments at fair value through profit and loss	5,463,650	-
Total	**601,140,684**	**720,427,812**
10. Net other operating income		
Dividend income	3,046,550	2,515,500
Intergroup recoveries (Note 10 a.)	21,696,209	56,093,539
Cost recoveries from customers	10,937,176	10,145,628
Total	**35,679,935**	**68,754,666**

Note 10.a. Intergroup recoveries

Deutsche Bank Colombo Branch provides services to the Financial Institutions Sales Desk, as prt 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.

11. Impairment charges	2019 Rs.	2018 Rs.
Financial assets at amortised cost - Loans and advances (Note21(c))		
Stage 1	(1,470,534)	763,501
Stage 2	(204,840)	(441,870)
Stage 3	-	-
Financial assets measured at fair value through other comprehensive income (Note 22(c))		
Stage 1	47,781,531	(2,503,404)
Stage 2	-	-
Stage 3	-	-
Contingent liabilities & commitments (Note 37 (a))		
Stage 1	(1,440,333)	(365,828)
Stage 2	(45,844)	(649,769)
Stage 3	-	-
Placements with banks (Note 17)	24,975	28,521
Provision for country risk (Note 31.4)	203,594	2,759,797
Total Impairment charges	**44,848,549**	**(409,053)**

12. Personnel expenses	2019 Rs.	2018 Rs.
Salary and bonus	203,474,051	233,979,023
Contributions to defined contribution plans	50,418,669	60,293,070
Provision for defined benefit obligations (Note 29)	17,248,808	18,858,621
Others/Other allowances and Staff related expenses	170,788,112	112,274,445
Total personnel expenses	**441,929,640**	**425,405,159**

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For the year ended 31st December	2019 Rs.	2018 Rs.
13. Other expenses		
Directors' emoluments	-	-
Auditors' remunerations		
Audit fees and expenses	1,190,025	900,065
Audit related fees and expenses	650,033	650,229
Non-audit fees to auditors	1,578,047	656,532
Professional and legal expenses (Note 13.1)	6,504,314	3,937,017
Inter-entity Expenses (Note 13.2)		
Head Office related expenses	182,733,691	195,279,382
Inter-entity other expenses	908,393,686	746,333,295
Office administration and establishment expenses	322,971,616	445,484,709
Provision/ Reversal for penalty	(209,171,297)	-
Normal NBT related to Non Banking	3,515,691	7,161,670
Debt Repayment Levy (Note 13.3)	117,396,841	23,036,761
Crop Insurance Levy	11,787,485	3,881,080
Finance expense on lease liability	3,655,637	-
Total o\ther expenses	**1,351,205,769**	**1,427,320,741**

Note 13.1 Professional and legal expenses

Professional fees includes the fees paid for tax consultants and other valuation specialists employed by the Branch. From current year onwards, income tax related consultations and tax disputes prior to 2019 will be handled by two consultation firms. Branch has employed two legal firms on the pending litigations.

Note 13.2 Inter-entity Expenses

Deutsche Bank Colombo Branch receives Head Office related expenses such as Asia Pacific Head Office which provides infrastructure support functions and Global Overheads for costs relating to centralized steering, co-ordination and monitoring functions performed for the DBAG Group.

In addition, Duetsche Bank Colombo Branch receives Inter-Entity other expenses such as services from the coverage team and regional support from DBAG Singapore Branch, as part of Global Transaction Banking (GTB) within the Corporate Banking Division of the Deutsche Bank Group, Group audit, HR and global technology and Operations Charges relating to IT infrastructure to support all of the Bank's business and operational services in ensuring control and processes of transactions.

These costs are shared between branches and subsidiaries of the Group and Branch recognises these costs under Inter-Entity expenses.

Note 13.3 Debt Repayment Levy (DRL) on Financial Services

With effect from 1 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 calculation of VAT on financial services before deducting the VAT and NBT on financial services. This levy has been removed with effect from 1 January

14. Tax expenses

	2019	2018
14.1 Amount recognised in profit or loss		
Current tax expense		
Current year	218,734,440	535,832,717
(Over)/under provision for prior years	(292,205,750)	27,742,440
Prior year income tax refund claim	(249,024,310)	-
	(322,495,620)	**563,575,157**
Deferred tax expense		
Deferred tax asset originated during the year (Note 24.1)	9,667,701	2,996,057
Deferred tax liability originated during the year (Note 24.2)	27,871,924	(4,911,677)
	37,539,625	**(1,915,620)**
Total tax expenses	**(284,955,995)**	**561,659,537**

The Branch has considered the relevant provisions of the Inland Revenue Act, No. 24 of 2017 which came into effect from 1 April 2018, when computing the current and deferred tax assets/liabilities.

	2019	2018
14.2 Amount recognised in Other Comprehensive Income (OCI)		
Tax on items that will not be reclassified to profit or loss		
Remeasurement of Defined Benefit Liability	4,833,950	(5,659,303)
Tax on items that are or may be reclassified subsequently to profit or loss		
Movement in fair value reserve (FVOCI debt instruments)	(11,406,916)	-
	(6,572,966)	**(5,659,303)**

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	2019 Rs.	2018 Rs.
14. Tax expenses cont.		
14.3 Reconciliation of effective tax rate with income tax rate		
Income tax for the year (Accounting profit@ applicable tax rate)	264,034,936	279,952,402
Add: Tax effect of expenses that are not deductible for tax purposes	332,692,636	359,760,619
(Less): Tax effect of expenses that are deductible for tax purposes	(377,993,132)	(103,880,303)
Current tax expense	218,734,440	535,832,718

15. Cash and cash equivalents

	2019 Rs.	2018 Rs.
Cash in hand	48,170,515	51,453,402
Balances with banks	67,697,203	16,209,298
Total	**115,867,718**	**67,662,700**

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

16. Balances with Central Banks

	2019 Rs.	2018 Rs.
Statutory balance with Central Banks		
Central Bank of Sri Lanka	896,645,448	2,557,516,001
Non-statutory balances with Central Banks		
Central Bank of Sri Lanka	6,780,000,000	50,010,989
Total balances with Central Banks	**7,676,645,448**	**2,607,526,990**

Balances with Central Bank are carried at amortized cost in the statement of financial position.

Note 16.1 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 5.00% with effect from 1 March 2019 (minimum rate was 6.00% up to 1 March 2019). Central Bank introduced average 100% margin requirements against letters of credit for importation of motor vehicles and non-essential consumer goods, with effect from 29 September 2018.

There are no reserve requirement for deposit liabilities of the Foreign Currency Banking Unit and foreign currency deposit liabilities in the Domestic Banking Unit.

17. Placements with banks

	2019 Rs.	2018 Rs.
Bank of Ceylon	-	2,750,674,315
National Development Bank	-	450,110,959
Hatton National Bank PLC	751,456,928	-
	751,456,928	3,200,785,274
Provision for impairment (Note 17.1)	(198,508)	(173,533)
Total	**751,258,420**	**3,200,611,741**

Placements with banks are carried at amortized cost in the statement of financial position.

Note 17.1 Impairment provision for placements with banks

	2019 Rs.	2018 Rs.
Opening balance at 01st January	173,533	145,013
Charge to Income Statement	24,975	28,521
Closing balance at 31st December	**198,508**	**173,533**

18. Derivative financial instruments

	2019 Rs.	2018 Rs.
Foreign currency derivatives		
Forward foreign exchange contracts	37,878,127	7,553,987
Total	37,878,127	7,553,987

19. Group balance receivable

	2019 Rs.	2018 Rs.
Branches (Branches of Deutsche Bank AG-Frankfurt)	944,515,205	1,255,752,846
Subsidiaries (Subsidiaries of Deutsche Bank AG-Frankfurt)	660,391,284	1,034,449,360
Other Inter-group receivable from Branches and Head Office	101,973,721	92,112,985
	1,706,880,210	2,382,315,191

20. Financial assets measured at fair value through profit or loss

	2019 Rs.	2018 Rs.
Sri Lanka Government Securities		
Treasury Bills	1,450,416,710	-
Treasury Bonds	5,349,023,416	-
	6,799,440,126	-

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As at 31st December	2019 Rs.	2018 Rs.
21. Financial assets at amortised cost - Loans and advances		
Financial assets at amortised cost - Loans and receivables to customers		
Gross loans and advances	14,643,024,531	11,982,229,178
Provision for impairment (Note 21 c)	(3,329,441)	(5,004,814)
Net loans and advances	**14,639,695,090**	**11,977,224,364**
21.a. Gross loans and advances		
Stage 1	14,643,024,531	9,723,963,533
Stage 2	-	2,258,265,645
	14,643,024,531	**11,982,229,178**
Less: Accumulated impairment		
Stage 1	(3,326,358)	(4,796,892)
Stage 2	(3,083)	(207,923)
	(3,329,441)	**(5,004,814)**
Net loans and advances	**14,639,695,090**	**11,977,224,364**
21.b. Analysis		
By product		
Overdrafts	11,465,941,412	8,281,481,206
Trade finance	2,756,769,037	2,589,637,337
Staff loans	190,559,750	203,929,817
Supplier Finance	229,754,332	907,180,818
Gross total	**14,643,024,531**	**11,982,229,178**
By currency		
Sri Lankan Rupee	9,640,045,831	8,087,856,753
United States Dollar	4,713,013,648	3,573,609,200
Euro	289,965,052	320,763,225
Gross total	**14,643,024,531**	**11,982,229,178**
By industry		
Agriculture and fishing	2,654,989	14,410,239
Manufacturing	5,437,766,996	5,359,883,006
Tourism	552,227,395	656,099,716
Transport	200,465,529	198,362,040
Construction	2,469,307,925	121,656,039
Traders	4,919,601,624	4,026,707,501
New economy	985,374,134	1,520,474,084
Financial and Business Services	-	2,362,706
Others	75,625,939	82,273,847
Gross total	**14,643,024,531**	**11,982,229,178**
21.c. Movements in impairment during the year		
Stage 1		
Opening balance as at 01st January	4,796,892	4,033,391
(Write back)/Charge to Income Statement	(1,470,534)	763,501
Closing balance at 31st December	**3,326,358**	**4,796,892**
Stage 2		
Opening balance as at 01st January	207,923	649,793
(Write back) to Income Statement	(204,840)	(441,870)
Closing balance at 31st December	**3,083**	**207,923**
Total	**3,329,441**	**5,004,815**

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As at 31st December	2019 Rs.	2018 Rs.
22. Financial assets at fair value through other comprehensive income		
Sri Lanka Government Securities		
Treasury Bills	4,402,721,537	6,288,822,700
Treasury Bonds	-	1,578,459,245
Sri Lanka Development Bonds	9,295,717,290	7,430,857,681
Equity instruments (Note 22.a.)	42,338,984	1,600,000
Net financial assets at fair value through other comprehensive income	13,740,777,811	15,299,739,626

Note 22.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. 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 for these investments, there is no active market to ascertain market value as at year end. Although in 2018 , the Management reported the said investments at cost , the net book value was considered to be more appropriate to reflect the fair value in the absence any other valuation techniques. Therefore the fair value is determined based on the net assets value of the unquoted equity share in 2019.

Equity instruments	2019			2018		
	No. of shares	Cost	Fair value	No. of shares	Cost	Fair value
Credit Information Bureau of Sri Lanka	1,000	100,000	19,813,819	1,000	100,000	100,000
Lanka Clear (Private) Limited	150,000	1,500,000	22,525,165	150,000	1,500,000	1,500,000
		1,600,000	**42,338,984**		**1,600,000**	**1,600,000**

	2019	2018
22.b. Analysis		
By collateralization		
Unencumbered	13,740,777,811	15,299,739,626
Gross Total	13,740,777,811	15,299,739,626
By currency		
Sri Lankan Rupee	4,445,060,521	7,868,881,945
United States Dollar	9,295,717,290	7,430,857,681
Gross total	13,740,777,811	15,299,739,626
22.c. Movements in impairment during the year		
Stage 1		
Opening balance as at 01st January	32,507,353	35,010,757
Charge/(Write back) to Other Comprehensive income (Note 11)	47,781,531	(2,503,404)
Closing balance at 31st December	80,288,884	32,507,353
Total	80,288,884	32,507,353

As per SLFRS 09, impairment provision (based on the DB group model) on debt instruments classified and measured at fair value through other comprehensive income required to recognise as an adjustment to the fair value reserve of the same kind of assets. Accordingly impairment charge for the year recognised as an expense in the current year (Refer Note 11) and change in provision adjusted to the fair value reserve (Refer Statement of Other Comprehensive income)

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As at 31st December

23. Property, plant & equipment - As at 31st December 2019

	Computer Equipment	EDP Mainframe	Safes	Paintings & Art Objects	Telephone & Telex	Office Equipment	Furniture & Fittings	Right-of-Use Asset	Total 2019
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.		Rs.
Cost									
Opening balance at 1st January 2019	75,882,068	100,700,080	1,876,527	744,000	41,055,657	25,587,419	116,269,628	-	362,115,379
Recognition of right-of-use asset on initial application of SLFRS 16 (Note 5)	-	-	-	-	-	-	-	28,807,129	28,807,129
Additions	7,614,497	1,000,697	-	-	772,577	-	264,176	153,595,847	163,247,794
Disposals	(16,891,329)	(8,897,868)	-	-	-	(9,046,114)	-	-	(34,835,311)
Closing balance at 31st December 2019	**66,605,236**	**92,802,909**	**1,876,527**	**744,000**	**41,828,234**	**16,541,305**	**116,533,804**	**182,402,976**	**519,334,991**
Accumulated depreciation									
Opening balance at 1st January 2019	64,408,713	85,130,191	1,876,505	743,996	31,389,441	23,670,678	104,507,447	-	311,726,971
Charge for the year	7,798,733	7,810,156	-	-	2,054,787	742,268	3,948,587	47,430,384	69,784,915
Disposals	(16,890,412)	(8,897,862)	-	-	-	(8,623,881)	-	-	(34,412,155)
Closing balance at 31st December 2019	**55,317,035**	**84,042,485**	**1,876,505**	**743,996**	**33,444,228**	**15,789,065**	**108,456,034**	**47,430,384**	**347,099,731**
Carrying value as at 31st December 2019	**11,288,202**	**8,760,424**	**22**	**4**	**8,384,006**	**752,240**	**8,077,770**	**134,972,592**	**172,235,260**

Out of the above depreciation charge of Rs. 69,784,915/- for the year, Rs. 3,489,246/- has been apportioned to FCBU. Accordingly Rs. 66,295,669/- was charged to DBU.

The cost of fully depreciated assets which are still in use is Rs. 218,197,074/- as at reporting date.

As at 31 December 2019, property and equipment includes right-of-use assets of Rs. 134 .9 Mn related to lease assets.

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As at 31st December

23. 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**
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	2019 Rs.	2018 Rs.
24. Deferred tax (Liabilities)/Assets		
Deferred tax assets (Note 24.1)	18,312,100	32,813,751
Deferred tax liabilities (Note 24.2)	(47,268,465)	(7,989,625)
	(28,956,365)	24,824,126

The movements on the deferred tax account is as follows:

24.1 Deferred tax assets		
Balance as at the beginning of the year	32,813,751	30,150,506
Reversed during the year - recognized in profit or loss	(9,667,701)	(2,996,057)
(Reversed)/originated during the year - recognized in other comprehensive income	(4,833,950)	5,659,303
Balance as at the end of the year	18,312,100	32,813,751

24.2 Deferred tax liabilities		
Balance as at the beginning of the year	7,989,625	12,901,302
Originated/(Reversed) during the year through profit or loss	27,871,924	(4,911,677)
Originated during the year through other comprehensive income	11,406,916	-
Balance as at the end of the year	47,268,465	7,989,625

24.3 Recognized deferred tax assets and

Deferred tax assets and liabilities are attributable to the following:

	2019		2018	
	Temporary difference	Tax effect	Temporary difference	Tax effect
Deferred tax assets				
Employee benefits	65,170,001	18,247,600	113,989,062	31,916,937
Fair value loss of FVOCI	-	-	1,864,067	521,939
Provision for restricted equity	-	-	111,318	31,169
Provision for cash retention payment	230,358	64,500	1,227,521	343,706
	65,400,359	18,312,100	117,191,968	32,813,751
Deferred tax liabilities				
Property, plant and equipment	21,773,894	6,096,690	28,534,376	7,989,625
Fair value gain of FVOCI	40,738,984	11,406,916	-	-
Provision for restricted equity	526,670	147,468	-	-
Right of use asset	134,972,592	37,792,326	-	-
Lease liability	(29,196,197)	(8,174,935)	-	-
	168,815,943	47,268,465	28,534,376	7,989,625

As at 31st December	2019 Rs.	2018 Rs.
25. Other assets		
Finacial assets	-	-
Clearing account balances (Note 25.1)	343,385,450	1,745,658,444
	343,385,450	**1,745,658,444**
Non-finacial assets		
Deposits and prepayments	38,402,344	27,103,167
Tax receivable (Note 25.2)	276,614,855	18,016,205
Others	7,184,537	48,181,781
	322,201,736	**93,301,153**
Total	**665,587,186**	**1,838,959,597**

Note 25.1 - Clearing account balances

Clearing account balance represents the balance to be received from the other Banks on behalf 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	319,514,755	1,735,803,954
FX clearing receivable from Sampath Bank PLC	23,870,695	9,854,490
	343,385,450	**1,745,658,444**

Note 25.2 - Tax receivable

Income tax refunds	249,652,487	-
WHT receivable	11,962,021	-
ESC receivable	14,407,257	18,016,205
Other	593,090	-
	276,614,855	**18,016,205**

26. Due to branches		
Borrowings from Deutsche Singapore	17,816,192,003	11,773,090,094
Total	**17,816,192,003**	**11,773,090,094**
27. Derivative financial instruments		
Foreign exchange derivatives		
Forward foreign exchange contracts	40,243,365	5,582,806
Total	**40,243,365**	**5,582,806**
28. Financial liabilities at amortized cost - Due to depositors		
Due to depositors	16,714,490,579	15,331,658,192
Total	**16,714,490,579**	**15,331,658,192**
28 a. Analysis of amount due to depositors		
By product		
Demand deposits (current accounts)	10,934,799,232	8,203,973,876
Savings deposits	2,837,310,623	2,449,471,403
Margin deposits	118,567,000	1,903,244,000
Fixed deposits	2,823,813,724	2,774,968,913
Total	**16,714,490,579**	**15,331,658,192**
By currency		
Sri Lanka Rupee	12,730,977,232	12,076,725,363
United States Dollar	2,185,196,453	2,869,081,540
Great Britain Pound	17,723,063	18,571,784
Euro	1,721,762,895	361,740,759
Swiss Frank	40,440,770	1,841,519
Others*	18,390,166	3,697,227
Total	**16,714,490,579**	**15,331,658,192**

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

As at 31st December	2019 Rs.	2018 Rs.

29. Employee benefit

29.1 Defined contribution plans

Following contributions have been made to Employees' Provident Fund and Employees' Trust Fund during the year.

	2019 Rs.	2018 Rs.
Employees' Provident Fund		
Employers' Contribution	45,224,771	54,383,917
Employees' Contribution	25,969,489	29,545,767
Employees' Trust Fund	5,193,898	5,909,153

29.2 Defined benefit plan - gratuity

	2019 Rs.	2018 Rs.
Opening balance as at 01st January	113,989,061	104,147,958
Provision for the Year (Note 29.a)	17,248,808	18,858,621
Actuarial (gain) / loss during the Year (Note 29.b)	(17,264,106)	1,729,943
Gratuity paid during the Year	(48,803,762)	(10,747,460)
Closing balance as at 31st December	**65,170,001**	**113,989,061**

29.a. Provision recognized in the Profit or Loss

	2019 Rs.	2018 Rs.
Current Service Cost	4,140,066	12,497,755
Interest on Obligation	13,108,742	6,360,866
	17,248,808	**18,858,621**

29.b. Provision recognized in other comprehensive income

	2019 Rs.	2018 Rs.
Actuarial (gain) / loss during the year	(17,264,106)	1,729,943
	(17,264,106)	**1,729,943**

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 2019 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 2019.

	2019	2018
Discount Rate %	**11.5%**	**11.5%**
Future salary increment rate %	**5%**	**8%**

29.d. Sensitivity ananlysis - Employee benefits

The Following table demonstrates the sensitivity to a reasonably possible change in the key assumptions used with all other variables held constant in the employment benefit liability measurement. The effect to the statement of financial position with the assumed changes in the discount rates and salary increment rate is given below:

	31 December 2019 Present Value of Defined Benefit Obligation		31 December 2018 Present Value of Defined Benefit Obligation	
	1% Increase	**1% Decrease**	**1% Increase**	**1% Decrease**
Discount Rate	63,361,413	67,105,611	111,281,568	116,896,549
Salary Escalation Rate	67,412,786	63,047,460	117,230,441	110,925,624

30. Current tax liabilities

	2019 Rs.	2018 Rs.
Opening balance as at 01st January	586,021,807	580,598,357
Charge for the year	218,734,440	535,832,717
Over/under provision adjustment in respect of prior years	(292,205,750)	27,742,440
Payments	(373,787,314)	(517,450,589)
Tax credits	-	(40,701,118)
Closing balance as at 31st December	**138,763,183**	**586,021,807**

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As at 31st December	2019 Rs.	2018 Rs.
31. Other liabilities		
Financial liabilities		
Lease liability (Note 31.1)	29,196,197	-
Clearing account balance (Note 25.1)	35,218,592	56,553,731
	64,414,789	**56,553,731**
Non-financial liabilities		
Accrued expenditure	51,420,498	57,816,960
Tax Penalty provision (Note 31.2)	-	209,175,157
Provision for Impairment of Commitments and Contingencies (Note 31.3)	842,328	2,328,505
Country risk (Note 31.4)	5,528,901	5,325,307
Other tax liability	48,155,937	42,888,497
Staff EPF reserve	44,560,754	43,191,866
Other payables	2,411,057	5,649,039
	152,919,475	**366,375,331**
Total	**217,334,264**	**422,929,062**

31.1 Lease liability

	2019 Rs.	2018 Rs.
Balance at 01 January (Note 05)	28,807,129	-
Additions	10,766,207	-
Charge for the year	3,655,637	-
Payment during the year	(14,032,776)	-
Balance at 31 December	**29,196,197**	-
Lease liability within one year	12,412,320	-
Lease liability after one year	16,783,877	-
	29,196,197	-

There are no lease liabilities which goes beyond 5 years.

31.2 Tax penalty provision

The provision made was on an assessment notice for the year of assessment 2014/15 to 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 included a penalty of Rs. 228.4 mn). A provision of Rs. 490.9 mn is made in the financial statements in 2017, which included tax penalty provision of Rs. 209.2 mn. However due to the time bar expired, Branch reversed the penalty provision in the current year after concultation in the Branch employed tax consultants

31.3 a. Provision for impairment commitments and contingencies

This provision relates to impairment 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.

31.3 b. Movements in impairment during the year

	2019 Rs.	2018 Rs.
Stage 1		
Opening balance as at 01st January	2,282,661	2,648,489
Write back to Income Statement	(1,440,333)	(365,828)
Closing balance at 31st December	**842,328**	**2,282,661**
Stage 2		
Opening balance as at 01st January	45,844	695,613
Write back to Income Statement	(45,844)	(649,769)
Closing balance at 31st December	-	**45,844**
Total	**842,328**	**2,328,505**

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As at 31st December	2019 Rs.	2018 Rs.

31. Other Liabilities Contd.

31.4 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; nationalization and expropriation of assets; government repudiation of external indebtness; exchange controls or currency depreciation or devaluation in any given country.

Balance as at 01 January	5,325,307	2,565,510
During the year charge/ write back	203,594	2,759,797
Balance as at 31st December	5,528,901	5,325,307

32. Group balance payable

Inter-entity expenses payable to HO and branches	3,107,770,642	2,143,976,870
Branches (Branches of Deutsche Bank AG-Frankfurt)	49,951,559	37,863,935
Total	3,157,722,201	2,181,840,805

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 Branch 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	2019 Rs.	2018 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	641,508,689	619,600,166
Transfers during the period	61,396,895	21,908,523
Closing balance at 31st December	702,905,584	641,508,689

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

Opening balance at 01st January	1,126,451,683	2,152,607,128
Adjustments relating to adoption of SLFRS 09	-	44,126,068
Profit for the year	1,227,937,909	438,170,468
Net actuarial gain/loss on defied benefit plan	17,264,106	(1,729,943)
Tax on other comprehensive income	(4,833,950)	484,384
Transfer to/from other reserves	(61,396,895)	(21,908,523)
Profit transferred to Head Office	-	(1,485,297,899)
Closing balance at 31st December	2,305,422,853	1,126,451,683

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36. Other reserves

As at 31st December 2019

	Opening balance at 01st January	Movement/ transfers	Closing balance at 31st December
Exchange equalisation of capital (Note 36.a)	523,634,406	(11,236,982)	512,397,424
Foreign currency translation reserve (Note 36.b)	266,151,609	(4,735,370)	261,416,239
Fair value OCI reserve	(10,482,702)	77,113,599	66,630,897
Reserve through Contributed Assets (Note 36.c)	3,743,212,907	-	3,743,212,907
Total	**4,522,516,220**	**61,141,247**	**4,583,657,467**

As at 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	214,227,631	523,634,406
Foreign currency translation reserve (Note 36.b)	122,963,677	(2,426,085)	120,537,592	143,187,932	266,151,609
OCI reserve	11,964,863	-	11,964,863	(22,447,565)	(10,482,702)
Reserve through Contributed Assets (Note 36.a)	3,743,212,907	-	3,743,212,907	-	3,743,212,907
Total	**4,187,548,222**	**(2,426,085)**	**4,185,122,137**	**334,967,998**	**4,522,516,220**

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

	2019	2018
Guarantees	7,930,312,010	8,342,955,134
Letters of credit	3,715,104,641	1,054,286,060
Forward exchange contracts	(59,172,388)	1,125,714
Usance Import Bills	707,537,295	832,209,929
Core accepteance	365,940,107	776,842,290
Undrawn loan commitments	15,776,274,017	11,656,432,956
Total	**28,435,995,682**	**22,663,852,082**

37.a. Movements in impairment during

	2019	2018
Opening balance as at 01 January	2,328,505	3,344,102
Write back to Income Statement	(1,486,177)	(1,015,597)
Closing balance as at 31 December	**842,328**	**2,328,505**

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38. Related party transactions

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 Transactions with Key Management Personnel (KMP)

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 have been classified as KMP of the Branch as at 31st December 2019.

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.

For the year ended 31 December	2019	2018
	Rs.	Rs.
38.1.1 Compensation to KMP		
Short term employee benefits	201,107,749	193,155,305
Post employment benefits	43,989,396	-
Termination benefits	300,370,252	70,817,179
Share based payments	304,091	913,548

38.1.2 Transactions, arrangements and agreements involving KMP

Lending facilities granted to KMP

Lending facilities granted to KMP	50,119,747	65,461,076

There were no interest charged on balances outstanding from KMP during the year (2018: Nil).

There were no Commitments and Contingencies against KMP as at the reporting date (2018: Nil).

38.1.3 Transactions, arrangements and agreements involving the Close Family Members (CFM) of KMP

CFM of a KMP are those family members who may be expected to influence, or be influenced by, that KMP in their dealings with the Branch. They may include KMP's domestic partner and children, children of the KMP domestic partner and dependants of the KMP or the KMP domestic partner. CFM are related parties to the Branch.

The aggregate value of transactions and outstanding balances related to close family members were as follows:

As at December	2019	2018
	Balance outstanding Rs.	Balance outstanding Rs.
Deposits received	-	-
Loans and advances granted	-	-

38.1.4 No impairment losses have been recorded against balances outstanding during the period with key management personnel, and no specific allowance has been made for impairment losses on balances with key management personnel at the reporting date.

38.2 Transactions and balances with Group entities

38.2.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 19 and 32.

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38. Related party transactions (Cont.)

38.2.a. Transactions with Deutsche Bank Group Contd.

As at December	2019 Rs.	2018 Rs.
Statement of financial position		
Placement with branches	3,875,053,739	3,659,242,958
Derivative financial instruments - assets	3,979,934	380,863
Group balance receivable		
Branches (Branches of Deutsche Bank AG-Frankfurt)	944,515,205	1,255,752,846
Subsidiaries (Subsidiaries of Deutsche Bank AG-Frankfurt)	660,391,284	1,034,449,360
Other Inter-group receivable from Branches and Head Office	101,973,721	92,112,985
Financial assets measured at fair value through profit or loss	-	-
Financial assets at amortised cost - Loans and advances	-	-
Financial assets at fair value through other comprehensive income	-	-
Due to branches	17,816,192,003	11,773,090,094
Derivative financial instruments - liabilities	11,606,070	456,361
Financial liabilities at amortized cost - Due to depositors	-	-
Group balance payable		
Inter-entity expenses payable to HO and branches	3,107,770,642	2,143,976,870
Branches (Branches of Deutsche Bank AG-Frankfurt)	49,951,559	37,863,935
Contingent liabilities and commitments	4,968,522,917	4,370,488,804

For the year ended 31 December	2019 Rs.	2018 Rs.
Income statement		
Interest income	79,498,759	63,580,663
Interest expense	369,726,186	263,715,972
Other income	21,696,163	56,093,524
Other operating expenses	1,091,127,333	941,612,681

38.2.b. Balances with the Employee's 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- employment benefits plan for the benefits of employees of the entity.

As at December	2019 Rs.	2018 Rs.
Statement of financial position		
Financial liabilities at amortized cost - Due to depositors	37,226,417	19,443,448

For the year ended 31 December	2019 Rs.	2018 Rs.
Income statement		
Other operating expenses	171,000	171,000

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39. Maturity analysis for financial assets and financial liabilities

The following tables set out the remaining contractual maturities of financial liabilities and financial assets of the Branch.

As at 31 December 2019	Carrying Amount	Up to 3 months	3 to 12 months	1 to 3 years	3 to 5 years	More than 5 years	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Financial assets by type							
Non-derivative assets							
Cash and cash equivalents	115,867,718	115,867,718	-	-	-	-	115,867,718
Balances with Central Bank	7,676,645,448	7,676,645,448	-	-	-	-	7,676,645,448
Placements with banks	751,456,928	751,456,928	-	-	-	-	751,456,928
Placements with branches	3,875,053,739	3,875,053,739	-	-	-	-	3,875,053,739
Financial assets measured at fair value through profit or loss	6,799,440,126	-	1,551,807,866	5,247,632,260	-	-	6,799,440,126
Financial assets at amortized cost – Loans to and receivables from other customers	14,643,024,531	14,467,901,333	22,187,383	88,190,385	26,744,812	38,000,618	14,643,024,531
Financial assets measured at fair value through other comprehensive income	13,740,777,811	5,800,126,307	2,316,476,888	5,581,835,632	-	42,338,984	13,740,777,811
Group balances receivables	1,706,880,210	1,604,906,210	101,974,000	-	-	-	1,706,880,210
Other assets	343,385,450	343,385,450	-	-	-	-	343,385,450
Derivative assets							
Derivative financial instruments	37,878,127	37,878,127	-	-	-	-	37,878,127
Financial liabilities by type							
Non-derivative liabilities							
Due to branches	17,816,192,003	12,290,978,885	-	5,525,213,118	-	-	17,816,192,003
Financial liabilities at amortized cost - Due to depositors	16,714,490,579	16,711,340,579	3,150,000	-	-	-	16,714,490,579
Other liabilities	64,414,789	64,414,789	-	-	-	-	64,414,789
Group balance payable	3,157,722,201	3,157,722,201	-	-	-	-	3,157,722,201
Derivative liabilities							
Derivative financial instruments	40,243,365	40,243,365	-	-	-	-	40,243,365

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39. Maturity analysis for financial liabilities and financial assets (Cont.)

The following tables set out the remaining contractual maturities of financial liabilities and financial assets of the Branch.

As at 31 December 2018	Carrying Amount	Up to 3 months	3 to 12 months	1 to 3 years	3 to 5 years	More than 5 years	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Financial assets by type							
Non-derivative assets							
Cash and cash equivalents	67,662,700	67,662,700	-	-	-	-	67,662,700
Balances with Central Bank	2,607,526,990	2,607,526,990	-	-	-	-	2,607,526,990
Placements with banks	3,200,785,274	3,200,785,274	-	-	-	-	3,200,785,274
Placements with branches	3,659,242,958	3,659,242,958	-	-	-	-	3,659,242,958
Financial assets at amortized cost – Loans to and receivables from other customers	11,982,229,178	11,778,496,775	2,207,449	6,960,576	51,821,076	142,743,302	11,982,229,178
Financial assets measured at fair value through other comprehensive income	15,299,739,626	9,195,715,315	2,386,137,000	3,716,287,311	-	1,600,000	15,299,739,626
Group balances receivables	2,382,315,191	2,290,202,206	92,112,985	-	-	-	2,382,315,191
Other assets	1,745,658,444	1,745,658,444	-	-	-	-	1,745,658,444
Derivative assets							
Derivative financial instruments	7,553,987	7,553,987	-	-	-	-	7,553,987
Financial liabilities by type							
Non-derivative liabilities							
Due to branches	11,773,090,094	8,063,092,000	-	3,709,998,094	-	-	11,773,090,094
Financial liabilities at amortized cost - Due to depositors	15,331,658,192	15,324,380,789	-	-	7,277,403	-	15,331,658,192
Other liabilities	56,553,731	56,553,731	-	-	-	-	56,553,731
Group balance payable	2,181,840,805	37,863,935	-	2,143,976,870	-	-	2,181,840,805
Derivative liabilities							
Derivative financial instruments	5,582,806	5,582,806	-	-	-	-	5,582,806

40. Analysis of financial instruments by measurement basis

Note 40.1 Analysis of financial instruments by measurement basis

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

As at 31st December 2019	AC Rs.	FVTPL Rs.	FVOCI Rs.	Total Rs.
Financial assets				
Cash and cash equivalents	115,867,718	-	-	115,867,718
Balances with Central Bank	7,676,645,448	-	-	7,676,645,448
Placements with banks	751,456,928	-	-	751,456,928
Placements with branches	3,875,053,739	-	-	3,875,053,739
Derivative financial instruments	-	37,878,127	-	37,878,127
Financial assets measured at fair value through profit or loss (FVTPL)	-	6,799,440,126	-	6,799,440,126
Financial assets at amortized cost - Loans and Advances	14,639,695,090	-	-	14,639,695,090
Financial assets measured at fair value through other comprehensive income (FVOCI)	-	-	13,740,777,811	13,740,777,811
Group balances receivables	1,706,880,210	-	-	1,706,880,210
Other assets	343,385,450	-	-	343,385,450
Total financial assets	**29,108,984,583**	**6,837,318,253**	**13,740,777,811**	**49,687,080,647**

	AC Rs.	FVTPL Rs.	Total Rs.
Financial liabilities			
Due to branches	17,816,192,003	-	17,816,192,003
Derivative financial instruments	-	40,243,365	40,243,365
Financial liabilities at amortized cost	16,714,490,579	-	16,714,490,579
Group balance payable	3,157,722,201	-	3,157,722,201
Other liabilities	64,414,789	-	64,414,789
Total inancial liabilities	**37,752,819,572**	**40,243,365**	**37,793,062,937**

As at 31st December 2018	AC Rs.	FVTPL Rs.	FVOCI Rs.	Total Rs.
Financial assets				
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	3,200,785,274	-	-	3,200,785,274
Placements with branches	3,659,242,958	-	-	3,659,242,958
Derivative financial instruments	-	7,553,987	-	7,553,987
Loans and Receivables to customers	11,977,224,364	-	-	11,977,224,364
Financial assets measured at fair value through other comprehensive income (FVOCI)	-	-	15,299,739,626	15,299,739,626
Group balances receivables	2,382,315,191	-	-	2,382,315,191
Other assets	1,745,658,444	-	-	1,745,658,444
Total financial assets	**25,640,415,921**	**7,553,987**	**15,299,739,626**	**40,947,709,534**

	AC Rs.	FVTPL Rs.	Total Rs.
Financial liabilities			
Due to branches	11,773,090,094	-	11,773,090,094
Derivative financial instruments	-	5,582,806	5,582,806
Due to other customers	15,331,658,192	-	15,331,658,192
Group balance payable	2,181,840,805	-	2,181,840,805
Other liabilities	56,553,731	-	56,553,731
Total financial liabilities	**29,343,142,822**	**5,582,806**	**29,348,725,628**

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AC – Financial assets/liabilities measured at amortized cost

FVTPL – Financial assets/liabilities measured at fair value through profit or loss

FVOCI – Financial assets measured at fair value through other comprehensive income

40. Analysis of financial instruments by measurement basis (Cont.)

Valuation framework

The Branch has an established control framework for the measurement of fair values. This framework includes a Product Control function, which is independent of front office management and reports to the Senior Management Forum, and which has overall responsibility for independently verifying the results of operations and all significant fair value measurements.

40.2.a Assets and liabilities measured at fair value and fair value hierarchy

The following table provides an analysis 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 Decemebr 2019	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Financial assets				
Derivative financial instruments	-	37,878,127	-	37,878,127
Financial assets measured at fair value through profit or loss				
Treasury Bills	1,450,416,710	-	-	1,450,416,710
Treasury Bonds	5,349,023,416	-	-	5,349,023,416
Financial assets measured at fair value through other comprehensive income				
Treasury Bills	4,402,721,537	-	-	4,402,721,537
Sri Lanka Development Bond	-	9,295,717,290	-	9,295,717,290
Equity securities	-	-	42,338,984	42,338,984
Total financial assets	**11,202,161,663**	**9,333,595,417**	**42,338,984**	**20,578,096,064**
Financial liabilities				
Derivative financial instruments		40,243,365	-	40,243,365
Total financial liabilities	-	**40,243,365**	-	**40,243,365**

As at 31st Decemebr 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				
Treasury Bills	6,288,822,700	-	-	6,288,822,700
Treasury Bonds	1,578,459,245	-	-	
Sri Lanka Development Bond	-	7,430,857,681	-	7,430,857,681
Equity securities	-	-	1,600,000	1,600,000
Total financial assets	**7,867,281,945**	**7,438,411,668**	**1,600,000**	**13,728,834,368**
Financial liabilities				
Derivative financial instruments	5,582,806	-	-	5,582,806
Total financial liabilities	**5,582,806**	-	-	**5,582,806**

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40. Analysis of financial instruments by measurement basis (Cont.)

40.2.b Financial instruments not measured at fair value and fair value hierarchy

Methodologies and assumptions used to determine fair value of financial instruments which are not already recorded at fair value in the Statement of Financial Position are as follows.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost (eg. fixed rate loans and Advances, due to other customers, subordinate liabilities) are estimated based on the Discounted Cash Flow approach. This approach employs the current market interest rates of similar financial instruments as a significant unobservable input in measuring the fair value and hence it is categorised under Level 3 in the fair value hierarchy.

Sensitivity of significant unobservable inputs used to measure fair value of fixed rate financial instruments.

A significant increase/(decrease) in the market interest rate would result in lower/(higher) fair value being disclosed.

Assets for which fair value approximates carrying value

For financial assets and liabilities with short term maturities or with short term re-pricing intervals, it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings deposits which do not have a specific maturity.

The table in the next page sets out the fair values of financial assets and liabilities not measured at fair value and related fair value hierarchy:

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40. Analysis of financial instruments by measurement basis (Cont.)

40.2.b Financial instruments not measured at fair value and fair value hierarchy (Cont.)

Assets for which fair value approximates carrying value

For financial assets and liabilities with short term maturities or with short term re-pricing intervals, it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings deposits which do not have a specific maturity.

The following table sets out the fair values of financial assets and liabilities not measured at fair value and related fair value hierarchy:

	As at 31 December 2019					*As at 31 December 2018*				
	Level 1	Level 2	Level 3	Total Fair Value	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Total Carrying Amount
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Financial assets										
Cash and cash equivalents	-	115,867,718	-	115,867,718	115,867,718	-	67,662,700	-	67,662,700	67,662,700
Balances with Central Bank of Sri Lanka	-	7,676,645,448	-	7,676,645,448	7,676,645,448	-	2,607,526,990	-	2,607,526,990	2,607,526,990
Placements with Banks	-	751,456,928	-	751,456,928	751,456,928	-	3,200,785,274	-	3,200,785,274	3,200,785,274
Placements with Branches	-	3,875,053,739	-	3,875,053,739	3,875,053,739	-	3,659,242,958	-	3,659,242,958	3,659,242,958
Group Balances Receivables	-	1,706,880,210	-	1,706,880,210	1,706,880,210	-	2,382,315,191	-	2,382,315,191	2,382,315,191
Financial assets at amortized cost - Loans and Advances	-	-	14,639,695,090	14,639,695,090	14,639,695,090	-	-	11,977,224,364	11,977,224,364	11,977,224,364
Other Assets	-	-	343,385,450	343,385,450	343,385,450	-	-	1,745,658,444	1,745,658,444	1,745,658,444
	-	14,125,904,043	14,983,080,540	29,108,984,583	29,108,984,583	-	11,917,533,113	13,722,882,808	25,640,415,921	25,640,415,921
Financial Liabilities										
Due to Branches	-	17,816,192,003	-	17,816,192,003	17,816,192,003	-	11,773,090,094	-	11,773,090,094	11,773,090,094
Due to Customers	-	-	16,714,490,579	16,714,490,579	16,714,490,579	-	-	15,331,658,192	15,331,658,192	15,331,658,192
Group Balance Payable	-	49,951,559	3,107,770,642	3,157,722,201	3,157,722,201	-	37,863,935	2,143,976,870	2,181,840,805	2,181,840,805
Other Liabilities	-	-	64,414,789	64,414,789	64,414,789	-	-	56,553,731	56,553,731	56,553,731
	-	17,866,143,562	19,886,676,010	37,752,819,572	37,752,819,572	-	11,810,954,029	17,532,188,793	29,343,142,822	29,343,142,822

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40. Analysis of Financial Instruments by Measurement Basis (Cont.)

40.3 Valuation Techniques and Inputs in Measuring Fair Values

Table below provides information on the valuation techniques and inputs used in measuring the fair values of Derivative Financial assets and liabilities in the Level 2 and unquoted shares in Level 3 of the fair value hierarchy as given in Note 40.2a above.

Type of Financial Instruments	Fair Value as at 31 December Rs.	Valuation Technique	Significant Valuation Inputs
Derivative Financial Assets	37,878,127	Adjusted Forward Rate Approach	-Spot exchange rate
Derivative Financial Liabilities	40,243,365	This approach considers the present value of projected forward exchange rate as at the Reporting date as the fair value. The said forward rate is projected based on the spot exchange rate and the forward premium/discount calculated using extrapolated interest rates of the currency pairs under consideration. In computing the present value, interest rate differential between two currencies under consideration is used as the discount rate.	-Interest rate differentials between currencies under consideration
Unquoted Shares	42,338,984	The unquoted shares, which are held for regulatory purposes, are valued based on internal management information derived from the audited financial statements based on the net asset value of the investee, which is a significant unobservable input in measuring the fair value and hence it is categorized under level 3 in the fair value hierarchy.	Net book value per share

Note 40.4 Reconciliation of Level 3 Fair Value

The following table shows a reconciliation form the opening balances to the closing balances for Level 3 fair values.

	Unquoted Equity Securities Rs.
Balance as at 1 January 2018	1,600,000
Gain included in OCI	
- Net change in fair value (unrealized)	-
Balance as at 31 December 2018	**1,600,000**
Balance as at 1 January 2019	1,600,000
Gain included in OCI	
- Net change in fair value (unrealized)	40,738,984
Balance as at 31 December 2019	**42,338,984**

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41. Financial risk review

This note presents information about the Branch's exposure to financial risks and the Branch's management of capital.

41.1 Risk management approach

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.

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.

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.

41.2 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.

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			
Branch Management Board (BMB)		Asset and Liability Committee (ALCO)	
Chair	Frequency	Chair	Frequency
Chief Country Officer	Monthly	Treasurer	Eight meetings per annum

Asset and Liability Committee (ALCO)

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.

41.3 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:

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41. Financial risk review (cont.)

41.3 Risk identification & assessment (Cont.)

* identification and assessment of all the risks
* approval of the risk inventory
* 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 Line of Defence (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.

41.4 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.

Key risk appetite metrics

DB Colombo assigns seven 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)
– Net Stable funding ratio (NSFR)

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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

Branch promotes a strong risk culture where employees at all levels are responsible for the management and escalation of risks. Branch expects employees to exhibit behaviors that support a strong risk culture in line with our Code of Business Conduct and Ethics.

Branch has 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.

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 Branch whose activities generate risks, wheth financial or non-financial.

– The 2nd Line of Defense ("2nd LoD") refers to the risk type controller roles in the Branch who facilitate th implementation of a sound risk management framework throughout the organization

– The 3rd Line of Defense ("3rd LoD") is Group Audit, which is accountable for providing independent and objecti assurance on the adequacy of the design and effectiveness of the systems of internal control and risk management.

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41. Financial risk review (cont.)

41.5 Risk measurement

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 Branch'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 Branch 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. 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).

41.6 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 Branch, as well as liquidity stress testing (where relevant).

41.7 Stress Testing governance and processes

Benchmark stress tests

Benchmark stress tests are generally based on severe macroeconomic downturn scenarios calibrated to an approximately 20% likelihood of occurrence over a period of twelve months. Although the scenario probability is expected to stay constant, the actual assumptions used in the scenario depend on the macroeconomic and financial conditions and outlook at the time of running it.

The regular group-wide macro benchmark stress tests are performed on the quarter-end portfolios

As part of the Legal Entity ICAAP Program DB Colombo receives on a quarterly basis the results of the stress tests based on the benchmark scenario applied on group level.

41.8 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.

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41. Financial risk review (cont.)

41.9 Key types of Risks

The Branch has exposure to the following key risks from financial instruments:

Credit Risk
Liquidity risk
Market risk
Operational Risk

41.9.1 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
Cunterparty risk	Risk that cocunterparties fail to meet contractual obligations
Country risk	Risk that Deutsch Bank Colombo Branch may suffer a loss due to possible deterioration of economic conditions; political and social upheaval; nationalization and expropriation of assets; government repudiation of external debt indebtedness; exchange controls or currency depreciation of 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 and 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.

41.9.1.1 Credit risk stress testing

Credit risk stress tests of economic capital and also local regulatory demand are based on Group Credit Risk Stress Test methodology (Global Downturn or another macroeconomic stress scenario). The results are provided by Group on a quarterly basis in a standard template. In general, legal entity stress test can be performed using the group-allocated view or the standalone view. In the former case, one considers transactions of the legal entity towards DB group as risk free, whereas in the latter case, only transactions within the legal entity are considered as risk free. Deviations from the provided credit risk stress tests required to reflect local specifics or local regulatory requirements have to be approved by the Group.

The stress on local credit risk regulatory capital is calculated locally. For this purpose, the specifically calculated rating migration matrix (based on the Global Downturn Scenario or another macroeconomic stress scenario) provided by Group is applied to the local rated portfolio. The migration matrix is an output from the Group Credit Stress Test (GCST) which is the macroeconomic downturn (as mentioned above) applied on the Branch's credit portfolio using the internal EC model to calculate rating downgrade impact. By applying regulatory risk weights to the exposure of the derived portfolio, stressed RWA are calculated.

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41. Financial risk review (cont.)

41.9.1 Credit risk (Cont.)

41.9.1.2 Maximum Exposure

The maximum exposure to credit risk at the end of the reporting period without taking into consideration of any collateral held or other credit enhancements is represented by the carrying amount of each financial asset in the Statement of Financial Position after deducting any impairment allowance. A summary of the maximum exposure is as follows:

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

As at 31 December	2019 Rs.	2018 Rs.
On-balance sheet items		
Balances with Banks & Financial Institutions	67,697,203	16,209,298
Balances with Central Bank of Sri Lanka	7,676,645,448	2,607,526,990
Placements with Banks	751,456,928	3,200,785,274
Placements with Branches	3,875,053,739	3,659,242,958
Group balances receivable	1,706,880,210	2,382,315,191
Financial assets measured at fair value through profit or loss	6,799,440,126	-
Financial assets at amortized cost - Loans and Advances	14,643,024,531	11,982,229,178
Financial assets measured at fair value through other comprehensive income	13,740,777,811	15,299,739,626
Other assets	343,385,450	1,745,658,444
Total on-balance sheet items	**49,260,975,996**	**39,148,048,515**
Off-balance sheet items		
Guarantees	7,930,312,010	8,342,955,134
Letters of credit	3,715,104,641	1,054,286,060
Forward exchange contracts	(59,172,388)	1,125,714
Usance Import Bills	707,537,295	832,209,929
Core accepteance	365,940,107	776,842,290
Undrawn loan commitments	15,776,274,017	11,656,432,956
Total off-balance sheet items	**28,435,995,682**	**22,663,852,082**

For the year ended 31st December 2019

41. Financial risk review (cont.)

41.9.1 Credit risk (Cont.)

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

As at 31 December 2019	Sri Lanka	Asia Pacific (excl Sri Lanka)	North & Latin America	Europe	Total
	Rs.	Rs.	Rs.	Rs.	Rs.
On-balance sheet items					
Balances with Banks & Financial Institutions	-	24,532,500	1,557,349	41,607,354	67,697,203
Balances with Central Bank of Sri Lanka	7,676,645,448	-	-	-	7,676,645,448
Placements with Banks	751,456,928	-	-	-	751,456,928
Placements with Branches	-	3,875,053,739	-	-	3,875,053,739
Group balances receivable	-	132,669,293	660,391,358	913,819,559	1,706,880,210
Financial investments in Government securities	20,497,878,953	-	-	-	20,497,878,953
Financial investments in Equity securities	42,338,984	-	-	-	42,338,984
Financial assets at amortized cost - Loans and Advances	14,643,024,531	-	-	-	14,643,024,531
Other assets	343,385,450	-	-	-	343,385,450
Total on-balance sheet items	**43,954,730,294**	**4,032,255,532**	**661,948,707**	**955,426,913**	**49,604,361,446**
Off-balance sheet items					
Guarantees	1,168,529,718	4,343,665,428	-	2,418,116,864	7,930,312,010
Letters of credit	3,715,104,641	-	-	-	3,715,104,641
Forward exchange contracts	(59,172,388)	-	-	-	(59,172,388)
Usance Import Bills	707,537,295	-	-	-	707,537,295
Core acceptances	365,940,107	-	-	-	365,940,107
Undrawn loan commitments	15,776,274,017	-	-	-	15,776,274,017
Total off-balance sheet items	**21,674,213,390**	**4,343,665,428**	**-**	**2,418,116,864**	**28,435,995,682**

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For the year ended 31st December 2019

41. Financial risk review (cont.)

41.9.1 Credit risk (Cont.)

41.9.1.3 Geographic distribution of exposures, broken downs in significant areas by types of credit exposure (Cont.)

As at 31 December 2018	Sri Lanka	Asia Pacific (excl Sri Lanka)	North & Latin America	Europe	Total
	Rs.	Rs.	Rs.	Rs.	Rs.
On-balance sheet items					
Balances with Banks & Financial Institutions	-	7,730,410	1,068,634	7,410,254	16,209,298
Balances with Central Bank of Sri Lanka	2,607,526,990	-	-	-	2,607,526,990
Placements with Banks	3,200,785,274	-	-	-	3,200,785,274
Placements with Branches	-	3,659,242,958	-	-	3,659,242,958
Group balances receivable	-	93,905,568	1,033,369,334	1,255,040,289	2,382,315,191
Financial investments in Government securities	15,298,139,626	-	-	-	15,298,139,626
Financial investments in Equity securities	1,600,000	-	-	-	1,600,000
Financial assets at amortized cost - Loans and Advances	11,982,229,178	-	-	-	11,982,229,178
Other assets	1,745,658,444	-	-	-	1,745,658,444
Total on-balance sheet items	**34,835,939,512**	**3,760,878,936**	**1,034,437,968**	**1,262,450,543**	**40,893,706,959**
Off-balance sheet items					
Guarantees	1,418,228,513	3834656059	64032500	3026038062	8,342,955,134
Letters of credit	1,054,286,060	-	-	-	1,054,286,060
Forward exchange contracts	1,125,714	-	-	-	1,125,714
Usance Import Bills	832,209,929	-	-	-	832,209,929
Core acceptances	776,842,290	-	-	-	776,842,290
Undrawn loan commitments	11,656,432,956	-	-	-	11,656,432,956
Total off-balance sheet items	**15,739,125,461**	**3,834,656,059**	**64,032,500**	**3,026,038,062**	**22,663,852,082**

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41. Financial risk review (cont.)

41.9.1 Credit risk (Cont.)

41.9.1.4 Concentrations of Credit Risk

By setting various concentration limits under different criteria within the established risk appetite framework (i.e., single borrower/ group, industry sectors, product, counterparty and country etc.), the Branch ensures that an acceptable level of risk diversification is maintained on an ongoing basis. These limits are continuously monitored and periodically reviewed by the BMB and Branch Compliance team to capture the developments in market, political and economical environment both locally and internationally to strengthen the dynamic portfolio management practices and to provide an early warning on possible credit concentrations.

The maximum exposure to credit risk to the components of financial assets in the Statement of Financial Position as at December 31, broken down by industry sector and of financial assets are given below:

Financial Assets	Agriculture	Manufacturing	Construction	Trading	Finance, Insurance and business services	Other	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
As at 31 December 2019							
Cash and Cash Equivalents	-	-	-	-	115,867,718	-	115,867,718
Balances with Central bank of Sri Lanka	-	-	-	-	7,676,645,448	-	7,676,645,448
Placements with Banks	-	-	-	-	751,258,420	-	751,258,420
Placements with Branches	-	-	-	-	3,875,053,739	-	3,875,053,739
Group balances receivable	-	-	-	-	1,706,880,210	-	1,706,880,210
Investments in Government securities	-	-	-	-	20,497,878,953	-	20,497,878,953
Investments in Equity securities	-	-	-	-	42,338,984	-	42,338,984
Loans and Advances	2,654,989	5,437,766,996	2,469,307,925	4,919,601,624	-	1,813,692,997	14,643,024,531
Other assets	-	-	-	-	343,385,450	-	343,385,450
	2,654,989	**5,437,766,996**	**2,469,307,925**	**4,919,601,624**	**35,009,308,922**	**1,813,692,997**	**49,652,333,453**

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41. Financial risk review (cont.)

41.9.1 Credit risk (Cont.)

41.9.1.4 Concentrations of Credit Risk (Cont.)

Financial Assets	Agriculture	Manufacturing	Construction	Trading	Finance, Insurance and business services	Other	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
As at 31 December 2018							
Cash and Cash Equivalents	-	-	-	-	67,662,700	-	67,662,700
Balances with Central Bank of Sri Lanka	-	-	-	-	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
Group balances receivable	-	-	-	-	2,382,315,191	-	2,382,315,191
Investments in Government securities	-	-	-	-	15,298,139,626	-	15,298,139,626
Investments in Equity securities	-	-	-	-	1,600,000	-	1,600,000
Loans and Advances	14,410,239	5,359,883,006	121,656,039	4,026,707,501	2,362,706	2,457,209,687	11,982,229,178
Other assets	-	-	-	-	1,745,658,444	-	1,745,658,444
	14,410,239	**5,359,883,006**	**121,656,039**	**4,026,707,501**	**28,965,120,356**	**2,457,209,687**	**40,944,986,828**

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

As at December 31		2019		2018	
Type		Utilisation / Exposure	Total	Utilisation / Exposure	Total
		Rs.	Rs.	Rs.	Rs.
< 1 year	On-balance sheet	38,602,459		35,318,683	
	Off-Balance Sheet	10,392,801	48,995,260	17,890,659	53,209,342
1 year- 5 years	On-balance sheet	10,594,159		3,742,980	
	Off-Balance Sheet	1,567,466	12,161,625	3,502,189	7,245,169
> 5 years	On-balance sheet	64,159		86,213	
	Off-Balance Sheet	16,475,729	16,539,888	1,271,004	1,357,217

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41. Financial risk review (cont.)

41.9.1 Credit risk (Cont.)

41.9.1.6 Amount Arising from ECL

Loss Allowance

The following table shows reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument.

For the year ended 31st Decembe	2019			2018		
	Stage 1	Stage 2	Total	Stage 1	Stage 2	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Placements with Banks at Amortised Cost						
Balance at 1 January	173,533	-	173,533	145,013	-	145,013
Charge during the year	24,975	-	24,975	28,521	-	28,521
Balance at 31 December	**198,508**	-	**198,508**	**173,533**	-	**173,533**

Placements with Branches and Balances with Central Bank at Amortised Cost

No impairment provision was recognised on Balances with Central Bank and Placements with Branches at Amortised Cost.

For the year ended 31st Decembe	2019			2018		
	Stage 1	Stage 2	Total	Stage 1	Stage 2	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Loans and Advances to Customers at Amortised Cost						
Balance at 1 January	4,796,892	207,923	5,004,815	4,033,391	649,793	4,683,184
(Reversal)/Charge during the year	(1,470,534)	(204,840)	(1,675,374)	763,501	(441,870)	321,630
Balance at 31 December	**3,326,358**	**3,083**	**3,329,441**	**4,796,892**	**207,923**	**5,004,815**
Financial investments measured at fair value through other comprehensive income						
Balance at 1 January	32,507,353	-	32,507,353	35,010,757	-	35,010,757
Charge/(reversal) during the year	47,781,531	-	47,781,531	(2,503,404)	-	(2,503,404)
Balance at 31 December	**80,288,884**	-	**80,288,884**	**32,507,353**	-	**32,507,353**
Commitments and Contingencies						
Balance at 1 January	2,282,661	45,844	2,328,505	2,648,489	695,613	3,344,102
(Reversal) during the year	(1,440,333)	(45,844)	(1,486,177)	(365,828)	(649,769)	(1,015,597)
Balance at 31 December	**842,328**	-	**842,328**	**2,282,661**	**45,844**	**2,328,505**

41.9.1.7 Credit Exposure Arising from Derivative Transactions

Credit risk arising from derivative financial instruments at any time is limited to those with positive fair values, as reported in the Statement of Financial Position. With gross settled derivatives, the Branch is also exposed to a settlement risk, being the risk that the counterparty failing to deliver the counter value.

	2019		2018	
	Notional Amount	Fair Value	Notional Amount	Fair Value
	Rs.	Rs.	Rs.	Rs.
Forward Contracts				
Derivative financial assets	11,881,010,512	37,878,127	64,273,511	7,553,987
Derivative financial liabilities	16,754,837,166	40,243,365	229,653,000	5,582,806

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41. Financial risk review (cont.)

41.9.1 Credit risk (Cont.)

41.9.1.8 Offsetting financial assets andfinancial liabilities

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

41.9.2 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 Branch's liquidity risk management framework is to ensure that the Branch can fulfil its payment obligations at all times and can manage liquidity and funding risks within its Management-approved risk appetite. The framework considers all relevant and significant drivers of liquidity risk, whether on-balance sheet or off-balance sheet.

41.9.2.1 Management of liquidity risk

The Branch's Management sets the Bank's strategy for managing liquidity risk and oversight of the implementation is administered by Assets and Liability Management Committee (ALCO). ALCO approves the Branch's liquidity policies and procedures. Treasury manages the Branch's liquidity position on a day-to-day basis and reviews daily reports covering the liquidity position of both the Branch. A summary report, including any exceptions and remedial action taken, is submitted to ALCO on a monthly basis or ad hoc when predefined thresholds are breached.

The Branch's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. The key elements of the Branch's liquidity strategy are as follows:

- Monitoring maturity mismatches, behavioural characteristics of the Branch's financial assets and financial liabilities, and the extent to which the Branch's assets are encumbered and so not available as potential collateral for obtaining funding.
- Monitoring the Branch's liquidity through the Liquid Assets Ratio (statutory minimum is currently 20%) and Liquidity Coverage Ratio using a stock approach.
- Effecting threshold limits relevant for liquidity management as part of the overall risk limits system of the Branch.
- Carrying a portfolio of highly liquid assets, diversified by currency and maturity.

41.9.2.2 Liquidity risk stress testing

DB Colombo is fully integrated into the Group's liquidity risk management framework, and as such performs liquidity stress tests on a regular basis. The stress test framework is derived from DB's global stress testing framework, and adjusted to cover local market peculiarities, where necessary.

Liquidity stress test results are computed by Liquidity and Treasury Reporting and Analysis (LTRA) team based on the standards described in the Group Liquidity Stress Testing Methodology. Stress models and parameters are adjusted to cover local market and product specifications, which are reviewed and validated by APAC Liquidity Risk Management (LRM) in its capacity as an independent risk unit and approved at the local ALCO.

Stress tests results are discussed regularly in the local ALCO, where local Branch Management Board (BMB) members are also members of ALCO. Liquidity stress testing models (including all applicable assumptions) are reviewed at least annually to ensure that all stress parameters are sufficiently severe and remain relevant to DB Colombo. Any changes in liquidity stress testing models/ assumptions are subject to ALCO and APAC LRM (Liquidity Risk Management) team's approval prior to the implementation.

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41. Financial risk review (cont.)

41.9.2 Liquidity Risk (Cont.)

41.9.2.3 Exposure to liquidity risk – Regulatory liquidity

As at 31 December	2019 Rs.	2018 Rs.
Exposure to liquidity risk – Regulatory liquidity		
Statutory Liquid Assets Ratio (SLAR)		
- Domestic Banking unit	79%	105%
- Off-Shore Banking unit	81%	99%
Liquidity Coverage Ratio (LCR)		
- All Currency	311%	338%
- Rupee	389%	725%
Net Stable Funding Ratio (NSFR)	140%	N/A
Key measures of liquidity		
Net loans to total assets	29%	29%
Loans to customer deposits	88%	78%
Liquid assets to short term liabilities	118%	141%
Commitments to Liquid assets	45%	35%

41.9.2.4 Liquidity reserves

As part of the management of liquidity risk arising from financial liabilities, the Branch holds liquid assets comprising cash and cash equivalents, and debt securities issued by sovereigns, which can be readily sold to meet liquidity requirements. In addition, the Branch maintains agreed lines of credit with other banks and holds unencumbered assets eligible for use as collateral with Central Bank (these amounts are referred to as the "Branch's liquidity reserves").

The following table sets out the components of the Branch's liquidity reserves

As at 31 December	2019		2018	
	Carrying value Rs.	Fair value Rs.	Carrying value Rs.	Fair value Rs.
Cash and cash equivalents	115,867,718	115,867,718	67,662,700	67,662,700
Balances with Central Bank	7,676,645,448	7,676,645,448	2,607,526,990	2,607,526,990
Placements with Banks	751,258,420	751,258,420	3,200,611,741	3,200,611,741
Placements with Branches	3,875,053,739	3,875,053,739	3,659,242,958	3,659,242,958
Unencumbered debt securities issued by sovereigns	20,540,217,937	20,540,217,937	15,298,139,626	15,298,139,626
Total liquidity reserves	**32,959,043,262**	**32,959,043,262**	**24,833,184,015**	**24,833,184,015**

contractual cash
flows. The principal differences are as follows:

- demand deposits from customers are expected to remain stable or increase;
- unrecognised loan commitments are not all expected to be drawn down immediately.

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41. Financial risk review (cont.)

41.9.2 Liquidity Risk (Cont.)

41.9.2.5 Maturity analysis for financial liabilities

The following tables set out the remaining contractual maturities of financial liabilities of the Branch.

	Carrying Amount	Up to 3 months	3 to 12 months	1 to 3 years	3 to 5 years	More than 5 years	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
As at 31 December 2019							
Financial liability by type							
Non-derivative liabilities							
Due to Branches	17,816,192,003	12,290,978,885	-	5,525,213,118	-	-	17,816,192,003
Financial liabilities at amortized cost - Due to Depositors	16,714,490,579	16,711,340,579	3,150,000	-	-	-	16,714,490,579
Other liabilities	64,414,789	64,414,789	-	-	-	-	64,414,789
Group Balance Payable	3,157,722,201	3,157,722,201	-	-	-	-	3,157,722,201
Derivative liabilities							
Derivative financial instruments	40,243,365	40,243,365	-	-	-	-	40,243,365
As at 31 December 2018							
Financial liability by type							
Non-derivative liabilities							
Due to Branches	11,773,090,094	8,063,092,000	-	3,709,998,094	-	-	11,773,090,094
Financial liabilities at amortized cost - Due to Depositors	15,331,658,192	15,324,380,789	-	-	7,277,403	-	15,331,658,192
Other liabilities	56,553,731	56,553,731	-	-	-	-	56,553,731
Group Balance Payable	2,181,840,805	37,863,935	-	2,143,976,870	-	-	2,181,840,805
Derivative liabilities							
Derivative financial instruments	5,582,806	5,582,806	-	-	-	-	5,582,806

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41. Financial risk review (cont.)

41.9.2 Liquidity Risk (Cont.)

41.9.2.6 Financial Assets Available to Support Future Funding

The table below sets out the availability of the Branch's financial assets to support future funding:

As at 31 December	2019			2018		
	Encumbered/ Pledged as Collateral	Unencumbered/ Available as collateral	Total	Encumbered/ Pledged as Collateral	Unencumbered/ Available as Collateral	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Financial Assets						
Cash and Cash Equivalents	-	115,867,718	115,867,718	-	67,662,700	67,662,700
Balances with Central Bank of Sri Lanka	-	7,676,645,448	7,676,645,448	-	2,607,526,990	2,607,526,990
Placements with Banks	-	751,258,420	751,258,420	-	3,200,611,741	3,200,611,741
Placements with Branches	-	3,875,053,739	3,875,053,739	-	3,659,242,958	3,659,242,958
Derivative Financial Assets	-	37,878,127	37,878,127	-	7,553,987	7,553,987
Financial Assets at Amortised Cost - Loans and Advances	-	14,643,024,531	14,643,024,531	-	11,982,229,178	11,982,229,178
Financial Assets measured at Fair value through other comprehensive income	-	13,740,777,811	13,740,777,811	-	15,299,739,626	15,299,739,626
Financial Assets measured at FVTPL		6,799,440,126	6,799,440,126	-	-	-
Group balance receivable	-	1,706,880,210	1,706,880,210	-	2,382,315,191	2,382,315,191
Other Assets	-	343,385,450	343,385,450	-	1,745,658,444	1,745,658,444
Total Financial Assets	-	49,690,211,580	49,690,211,580	-	40,952,540,815	40,952,540,815

Financial Assets Pledged as Collateral

No financial assets have been pledged as collateral as at the reporting date (2018: NIL).

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41. Financial risk review (cont.)

41.9.3 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.
Non traded market risk	Risk arising from market movements in the banking book and from offbalance sheet items
Traded default risk	Risk that arises from defaults and rating migrations relating to trading instruments
Interest rate risk in the branch book	Risk to present values arising from adverse movements in underlying interest rates in the banking book.

The market risk for the Branch is managed in accordance with the Investment Policy and Derivatives Policy, which are approved by the head office Board. The policies ensure that operations in securities, foreign exchange and derivatives are conducted in accordance with sound and acceptable business practices and are as per the extant regulatory guidelines, laws governing transactions in financial securities and the financial environment. The policies contain the limit strueture that governs transactions in financial instruments. The policies are reviewed periodically to incorporate therein, changed business requirements, economic environment and revised policy guidelines.

41.9.3.1 Management of market risks

The Bank separates its exposure to market risks between trading and non-trading portfolios. Trading portfolios are mainly include positions arising from market making and proprietary position taking, together with financial assets and financial liabilities that are managed on a fair value basis and non-trading portfolios from positions arising from financial investments measured at fair value through other comprehensive income (FVOCI) and financial investments at amortised cost and from derivatives held for risk management purposes.

Overall authority for market risk is vested with the Branch Management through the Branch Management Borad (BMB). The operational authority for managing market risk is vested with ALCO. Foreign exchange risk is managed within approved limits and segregation of reporting responsibilities of Treasury Front Office, Middle Office and Back Office and overall review is performed by the group marker risk management team.

41.9.3.2 Market risk stress testing

Stress testing is a key risk management technique, which evaluates the potential effects of extreme market events and extreme movements in individual risk factors. It is one of the core quantitative tools used to assess the market risk of the Bank's positions and its primary application is within the European Commission framework. The scenario-based approach in stress testing is complementary to statistical model approaches as for VaR. Group Market Risk Manager (MRM) performs several types of stress testing to capture the variety of risks: individual business-level stress tests, MRM portfolio stress testing (e.g. Portfolio Stress Testing (PST), Event Risk Scenarios (ERS), and Group-wide stress testing).

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41. Financial risk review (cont.)

41.9.3 Market Risk (Cont.)

The Branch employs a range of tools to monitor and limit market risk exposures. These are discussed below, separately for trading and non-trading portfolios.

The following table sets out the allocation of assets and liabilities subject to market risk between trading and non-trading portfolios.

		Market risk measure	
As at 31 December 2019	**Carrying amount Rs.**	**Trading portfolio Rs.**	**Non-trading portfolio Rs.**
Assets subject to market risk			
Cash and Cash Equivalents	115,867,718	-	115,867,718
Balances with Central Bank of Sri Lanka	7,676,645,448	-	7,676,645,448
Placements with Banks	751,258,420	-	751,258,420
Placements with Branches	3,875,053,739	-	3,875,053,739
Derivative Financial Assets	37,878,127	37,878,127	-
Financial Assets at Amortised Cost - Loans and Advances	14,643,024,531	-	14,643,024,531
Financial Assets measured at fair value through other comprehensive income	13,740,777,811	-	13,740,777,811
Financial Assets measured at FVTPL	6,799,440,126	6,799,440,126	-
Group balance receivable	1,706,880,210	-	1,706,880,210
Liabilities subject to market risk			
Due to Branches	17,816,192,003	-	17,816,192,003
Derivative financial instruments	40,243,365	40,243,365	-
Financial liabilities at amortized cost - Due to Depositors	16,714,490,579	-	16,714,490,579
Group Balance Payable	3,157,722,201	-	3,157,722,201
As at 31 December 2018			
Assets subject to market risk			
Cash and Cash Equivalents	67,662,700	-	67,662,700
Balances with Central Bank of Sri Lanka	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 Assets	7,553,987	7,553,987	-
Financial Assets at Amortised Cost - Loans and Advances	11,982,229,178	-	11,982,229,178
Financial Assets measured at FVOCI/ Financial Assets - AFS	15,298,139,626	-	15,298,139,626
Financial Assets measured at FVTPL	-	-	-
Group balance receivable	2,382,315,191	-	2,382,315,191
Liabilities subject to market risk			
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 - Due to Depositors	15,331,658,192	-	15,331,658,192
Group Balance Payable	2,181,840,805	-	2,181,840,805

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41. Financial risk review (cont.)

41.9.3 Market Risk (Cont.)

41.9.3.3 Interest rate risk

The following is a summary of the Branch's interest rate gap position. The interest rate repricing gap table analyses the full-term structure of interest rate mismatches within the Branch's balance sheet based on either (i) the next repricing date or the maturity date if floating rate or (ii) the maturity date if fixed rate.

As at 31 December 2019	Carrying Amount Rs.	Up to 3 months Rs.	3 to 12 months Rs.	1 to 3 years Rs.	3 to 5 years Rs.	More than 5 years Rs.	Total Rs.
Financial Assets							
Cash and cash equivalents	115,867,718	115,867,718	-	-	-	-	231,735,436
Balances with Central Bank	7,676,645,448	7,676,645,448	-	-	-	-	15,353,290,896
Placements with Banks	751,258,420	751,258,420	-	-	-	-	1,502,516,840
Placements with Branches	3,875,053,739	3,875,053,739	-	-	-	-	7,750,107,478
Financial assets measured at fair value through profit or loss - Debt instruments	6,799,440,126	-	1,551,807,866	5,202,632,260	-	-	13,553,880,252
Financial assets at amortized cost – Loans to and receivables from other customers	14,643,024,531	14,467,901,333	22,187,383	88,190,385	26,744,812	38,000,618	29,286,049,062
Financial assets measured at fair value through other comprehensive income - Debt instruments	13,740,777,811	5,800,126,307	2,316,476,888	5,581,835,632	-	42,338,984	27,481,555,622
Financial Liabilities							
Due to Branches	17,816,192,003	12,290,978,885	-	5,525,213,118	-	-	-
Financial liabilities at amortized cost - Due to Depositors	16,714,490,579	16,711,340,579	3,150,000	-	-	-	-
As at 31 December 2018							
Financial Assets							
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	-	-	-	-	-
Financial assets at amortized cost – Loans to and receivables from other customers	11,982,229,178	11,778,496,775	2,207,449	6,960,576	51,821,076	142,743,302	142,743,302
Financial assets measured at fair value through other comprehensive income - Debt instruments	15,299,739,626	9,195,715,315	2,386,137,000	3,716,287,311	-	1,600,000	1,600,000
Financial Liabilities							
Due to Branches	11,773,090,094	8,063,092,000		3,709,998,094			
Financial liabilities at amortized cost - Due to Depositors	15,331,658,192	15,324,380,789		7,277,403			

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41. Financial risk review (cont.)

41.9.4 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 Branch including Operational Risk. It owns the overarching Operational Risk Management Framework (ORMF).

The Branch's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Branch's reputation with overall cost effectiveness and innovation. In all cases, Branch's policy requires compliance with all applicable legal and regulatory requirements.

The primary responsibility for the development and implementation of controls to address operational risk lies with IRMD whilst implementation is assigned to Senior Management within each business unit. Operational Risk Coordinating Officers are appointed within each department/Branch to assist in managing the Operational Risk. This responsibility is supported by the development of overall standards for management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including independent authorisation of transactions.
- Requirements for reconciliation and monitoring of transactions.
- Compliance with regulatory and other legal requirements.
- Documentation of controls and procedures.
- Requirements for periodic assessment of operational risks faced and the adequacy of controls and procedures to address the identified risks.
- Requirements for reporting of operational losses and propose remedial action.
- Development of contingency plans.
- Training and professional development to establish ethics and business standards.
- Insurance covering risk due to threats arising from external and other events.

Compliance with the Branch's standards is supported by a programme of periodic reviews undertaken by internal audit. The results of internal audit reviews are discussed with the business unit to which they relate, with summaries submitted to the Branch Management Committee (BMB).

41.9.4.1 Operational risk stress testing

The Branch is fully integrated into the Group's Operational Risk Management Framework, and as such performs Operational Risk stress tests on a regular basis. The local stress test framework is derived from DB's global stress testing framework.

Group Operational Risk translates group operational risk stress impact into DB operational risk factors for EC and respective RC which are applied to the Branch's local EC and RC figures. The stressed operational risk factors for EC and RC are calculated at least on an Annual basis by translating the macro economic assumptions of the global downturn

41.9.4.2 Operational risk mitigation techniques

The Branch 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.

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 opt-in to 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.

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42. Capital adequacy

Capital Adequacy is a measure of a Branch's financial strength expressed as a ratio of its capital to its risk weighted assets. The Central Branch of Sri Lanka has specified the minimum capital requirements for Branch's, which operate as a limiting factor on creation of risk-associated assets by Branch's. Under this requirement there is a universally accepted risk measurement framework and minimum capital levels to be maintained by Branch's.

Central Bank of Sri Lanka sets and monitors regulatory capital requirement on both consolidated and solo basis. The Branch is required to comply with the provisions of the Basel III requirements in respect of regulatory capital commencing from July 2017. The Branch currently uses the standardised approach for credit risk and market risk and basic indicator approach for operational risk.

The Basel III capital regulations, which are currently in force, will continue to be based on the three-mutually reinforcing Pillars introduced under Basel II, minimum capital requirement, supervisory review process and market discipline. Basel III focuses on increasing the quality and quantity of capital especially the Core Capital, through redefining the common equity capital and introducing new capital buffers such as the Capital Conservation Buffer and a Capital Surcharge on domestic systematically important banks. Branch started reporting capital computations under the Basel III requirements from mid 2017 as per the regulatory requirements.

Regulatory capital comprises Tier 1 capital and Tier 2 capital. The Branch's policy is to maintain a strong capital base so as to ensure investor, creditor, and market confidence to sustain future development of the business. DB Colombo and its Group have complied with the minimum capital requirements imposed by the Central Bank of Sri Lanka throughout the year.

42.1 Key regulatory ratios - capital and liquidity

For the year ended 31 December	2019	2018
Regulatory Capital (Rs. '000)		
Common Equity Tier 1, adjusted	11,201,930	9,934,623
Tier 1 Capital	11,201,930	9,934,623
Total Capital	11,205,258	9,934,623
Regulatory Capital Ratios (%)		
Common Equity Tier 1 Capital Ratio (Minimum Requirement - 7.00%)	40%	37%
Tier 1 Capital Ratio (Minimum Requirement - 8.50%)	40%	37%
Total Capital Ratio (Minimum Requirement - 12.50%)	40%	37%
Leverage Ratio (Minimum Requirement - 3%)	20%	N/A

42.2 Basel III computation of capital ratios

	2019	2018
Total Risk Weighted Assets (RWA) (Rs. '000)	28,040,671	27,140,456
RWAs for Credit Risk (Rs. '000)	21,109,218	21,274,779
RWAs for Market Risk (Rs. '000)	3,099,688	1,732,817
RWAs for Operational Risk (Rs. '000)	3,831,765	4,132,861
CET1 Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	**40%**	**37%**
of which: Capital Conservation Buffer (%)	2%	2%
of which: Countercyclical Buffer (%)	N/A	N/A
of which: Capital Surcharge on D-SIBs (%)	N/A	N/A
Total Tier 1 Capital Ratio (%)	40%	37%
Total Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	**40%**	**37%**
of which: Capital Conservation Buffer (%)	2%	2%
of which: Countercyclical Buffer (%)	N/A	N/A
of which: Capital Surcharge on D-SIBs (%)	N/A	N/A

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42. Capital adequacy (Cont.)

42.2 Basel III computation of capital ratios contd.

For the year ended 31 December	2019 Rs. '000	2018 Rs. '000
Common Equity Tier 1 (CET1) Capital after Adjustments	11,201,930	9,934,623
Common Equity Tier 1 (CET1) Capital	11,162,001	9,921,584
Equity Capital (Stated Capital)/Assigned Capital	4,410,461	4,410,461
Reserve Fund	702,905	641,506
Published Retained Earnings/(Accumulated Retained Losses)	2,305,422	1,126,404
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 Branch and held by Third Parties	-	-
Total Adjustments to CET1 Capital	39,929	13,039
Goodwill (net)	-	-
Intangible Assets (net)	-	-
Others (Deferred Tax Assets, Vostro)	39,929	13,039
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 Branch and held by Third Parties	-	-
Total Adjustments to AT1 Capital	-	-
Investment in Own Shares	-	-
Others (specify)	-	-
Tier 2 Capital after Adjustments	3,328	-
Tier 2 Capital	3,328	-
Qualifying Tier 2 Capital Instruments	-	-
Revaluation Gains	-	-
Loan Loss Provisions	3,328	-
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Branch and held by Third Parties	-	-
Total Adjustments to Tier 2	-	-
Investment in Own Shares	-	-
Others (specify)	-	-
CET1 Capital	11,201,930	9,934,623
Total Tier 1 Capital	11,201,930	9,934,623
Total Capital	**11,205,258**	9,934,623

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For the year ended 31st December	2019 Rs.	2018 Rs.

43. Non- cash items included in Profit Before Tax

Depreciation of property, plant and equipment	69,784,915	26,041,113
Write off of Assets	423,156	12,470
Reversal/(charge) of Impairment losses on loans and advances	(1,675,374)	(321,630)
(Charge)/reversal of Impairment losses on FVTOCI	47,781,531	2,503,404
Off balance sheet impairment	(1,486,177)	1,015,597
Reversal of Impairment losses on Placements	24,975	(28,521)
Provision for Country risk	203,594	(2,759,797)
Charge for defined benefit plans	17,248,808	18,858,621
Tax credits	-	(19,516,065)
Inter-entity Expense	1,091,127,377	941,612,677
Notional tax grossed under interest income	-	(21,185,053)
Net Unrealized Forward Exchange Loss	4,340,612	(3,063,906)
	1,227,773,417	**943,168,909**

44. Change in operating assets

Change in derivative financial instruments	34,664,752	1,311,409
Change in balance with Central Bank	5,069,118,458	1,957,606,135
Change in placement with banks	(2,449,328,346)	35,492,964
Change in placements with branches	215,810,781	3,062,785,561
Change in group balance receivable	(675,434,981)	(129,670,595)
Change in financial assets measured at fair value through profit or loss (FVTPL)	6,799,440,126	-
Change in financial assets at amortized cost - Loans and Advances	2,660,795,352	2,402,328,722
Change in financial assets measured at fair value through other comprehensive income (FVOCI)	(1,599,700,800)	(1,048,680,900)
Change in other assets	(1,422,396,721)	948,079,186
	8,632,968,621	**7,229,252,482**

45. Change in cperating liabilities

Change in due to banks	-	(714,546,575)
Change in financial liabilities at amortized cost - Due to Depositors	1,382,832,387	3,770,908,527
Change in due to branches	6,043,101,909	3,867,159,053
Change in other liabilities	(233,119,344)	17,053,396
Change in due to Group balance	(115,245,981)	(98,606,599)
Derivative financial instruments	34,660,559	1,316,847
	7,112,229,530	**6,843,284,648**

46. Subsequent events after reporting date

Subsequent to the reporting date, no circumstances have arisen which would require adjustment to or disclosure in the financial statements other than disclosed herewith;

Capitalization of unremitted Head Office expenses

Branch has obtained written approval from Central Bank of Sri Lanka to capitalize un-remitted Head Office expenses Rs. 1,875,310,946 and transferred to Reserve through contributed assets in February 2020. Conversion amount included un remittable head office expenses reported up to end of financial year 2016, 2017 and 2018, converted to equity during the financial year 2020. This conversion strengthen the Branch's single borrowing limited (SBL).

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46. Subsequent events after reporting date contd.

Covid 19 outbreak

On 11 March 2020, the World Health Organization declared the Coronavirus COVID-19 outbreak to be a pandemic in recognition of its rapid spread across the globe with over 150 countries now affected. Businesses may be negatively impacted due to the overall negative economic conditions caused by the pandemic. The financial reporting effects of the COVID-19 outbreak have been considered as non-adjusting events because the significant changes in business activities and economic conditions occurred as a result of events arising after the reporting date. Branch Management are unable to estimate the potential impact the outbreak would have on the Branch's financial position, as of date. Accordingly disclosures will be made in the financial statements under Events after Reporting date.

47 Capital commitments

There were no material Capital Commitments as at the reporting date, which require disclosures in the Financial Statements.

48 Litigation and claims

CA (Writ) 166/2018

This is a writ application filed by a Customer (The Petitioner) against, the Director General of Customs, Deputy Director of Customs, Deputy Superintendent of Customs and Deutsche Bank AG seeking, inter alia, a writ of Certiorari, quashing the Order dated 06.04.2018 issued by Sri Lanka Customs, a writ of prohibition restraining the Sri Lanka Customs and/or its officers from taking any steps or action on the said Order and an order restraining Deutsche Bank AG from making any payments on demand to Sri Lanka Customs under the Bank Guarantees issued by Deutsche Bank AG on the instructions of the Plaintiff.

This case which was fixed for argument on 31st March 2020, has been re-fixed due to the prevailing situation of the Country. The next date of the case has not been notified yet by the Registry of Court of Appeal.

Customs inquiry - CBCU/2008/16

This inquiry was commenced by Sri Lanka Customs against the Branch and 3 other parties in relation to the importation of 72,000 MT of wheat into Sri Lanka. The specific charge against the Branch is in relation to the purportedly fraudulent endorsing of commercial invoices for the importation of 29, 042 MT of wheat into Sri Lanka.

However, by way of letter dated 26th July 2019, Sri Lanka Customs called upon the Branch to show cause as to why the above mentioned forfeiture should not be imposed upon the Branch. Branch responded thereto, objecting to the issue of the purported show cause letter and the purported appointment of the new inquiring officer, by way of letter dated 26th August 2019.

Sri Lanka Customs has not responded to the said letter dated 26th August 2019 to date and no further steps have been taken by them in respect of this matter.

Tax assessments against the Branch

Corporate income tax

Year of Assessment 2016/2017

Penalty notice

Branch received a penalty notice dated on 13 June 2019 amount in to Rs. 82,619,849 for the non payment of tax payments on time. However, Branch filed an objection on 15 July 2019 stating that payments were settled on time. The objection is with Commissioner General Inland revenue level and as at reporting date the objection was pending for inquiry.

Tax assessments against the Branch (Cont.)

Tax in default notice

Branch received a tax in Default Notice on 10 September 2019, assessing tax of Rs. 49,865,198 and imposing a penalty of Rs 82,619,849 for non payment of taxes on due date. However, Branch filed an objection on 23 October 2019 stating that payments were settled on time. The objection is with Commissioner General Inland revenue level and as at reporting date the objection was pending for inquiry.

Year of assessment 2017/2018

Penalty notice

Branch received a penalty notice dated on 26 July 2019 amount in to Rs. 35,185,796 for the non payment of tax payments on time. However, Branch filed an objection on 30 August 2019 stating that payments were settled on time. The objection is with Commissioner General Inland revenue level and as at reporting date the objection was pending for inquiry.

Department of Inland Revenue has requested information on the same year of assessments by a way of letter dated 18 September 2019. Branch submitted information accordingly and had a discussion on 21 January 2020. Further, Branch submitted information on 31 January 2020 and the same is with Commissioner General of Inland Revenue for pending inquiry as at reporting date.

Withholding tax

Period from 01/01/2017 to 31/03/2017

Branch has received a notice of assessment baring assessments number 4201640001 dated on 15 October 2018 for assessed tax of Rs. 15,534 and penalty of Rs. 829,012. However, Branch has appealed on 15 November 2018 and no response received as at reporting date.

Period from 01/04/2017 to 30/06/2017

Branch has received a notice of assessment baring assessments number 4201710001 dated on 11 October 2018 for a penalty of Rs. 423,453. However, Branch has appealed on 02 November 2018. A meeting is to be scheduled with Commissioner, Corporate Financial Enterprises Compliance & Enforcement Unit 2, in order to reconcile the discrepancies between the payments as per the Return and the DIR system. The Branch is to revert with a suitable date and time to schedule the meeting.

Period from 01/07/2017 to 30/09/2017

Branch has received a notice of assessment baring assessments number 4201710001 dated on 11 October 2018 for a penalty of Rs. 663,945. However, Branch has appealed on 13 November 2018 and no response received as at reporting date.

Period from 01/01/2018 to 31/03/2018

Branch has received a penalty notice baring number 4201740001 dated on 15 October 2018 for a penalty of Rs. 423,453 for non payment of tax payments due dates. However, Branch has submitted an objection on 07 November 2018 and as at reporting date, Deputy Commissioner verbally agreed to waive off the penalty.

Value Added Tax

Period from 01/04/2016 to 30/06/2016

Branch received both notice of assessment and penalty notice on 11 October 2018 for assessed tax of Rs. 3,803,198 and a penalty of Rs. 1,719,608. Branch submitted an appeal on 09 November 2019.

Further, Branch received a tax in default notice on 14 November 2018 for assesses tax of Rs. 2,605,466 and penalty of Rs. 1,771,717. Branch submitted valid appeal and an objection on due dates. As at reporting date the same was still being resolved and as at reporting date the same was with refund unit for refunds.

The Management is of the view that the Branch has followed due process and acted in accordance with the prevailing laws in its tax submissions for above years of assessment.

KPMG Chartered Accountants

For the year ended 31 December 2019

47. Contingent assets

There were no material Contingent assets as at the reporting date, which require disclosures in the Financial Statements except for disclosed below.

Year of Assessment 2017/2018

Refund Mode Instruction Notice

Branch received a Refund Mode Instruction notice issued on 08 August 2019 and Branch made a Refund claim on 25 September for refund declared as per year of Assessment 2017/2018 Return of Income.

Year of Assessment 2018/2019

Branch received a letter from Department of Inland Revenue dated 30 December 2019. Branch duly submitted refund claim for the refund declared in the year of assessment 2018/2019 Return of Income.

Prior Year refunds

Branch has been able to finalized refunds for year of assessments 2011/2012, 2013/2014 and 2014/2015 for a amount of Rs. 170,986,831 and duly submitted claims on 05 December 2019 and 05 August 2019.

Further, Branch is in the process of finalizing refunds for year of assessment 2017/2018 for Rs. 150,468,131 by submitting refund claim on 25 September 2019 and Branch lodged a refund claim for year of assessment 2018/2019 for

48. Comparative information

The presentation and classification in the financial statements have been amended where appropriate to ensure comparability with the current year except for those described in Note 5 to the financial statements relating to first time adoption of SLFRS 16.

49. 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 and comply with the requirements of the Banking Act No 30 of 1988 and amendments thereto.

DEUTSCHE BANK AG – COLOMBO BRANCH
BASEL III DISCLOSURES
FOR THE YEAR ENDED
31[ST] DECEMBER 2019

Contents

INTRODUCTION

The purpose of this Report is to provide Pillar 3 disclosures of DB Colombo Branch as required by Banking Act Direction No. 1 of 2016 issued by the Monetary Board, Central Bank of Sri Lanka, for capital requirements under Basel III for Licensed Commercial Banks and Licensed Specialized Banks.

DB Colombo Branch is a financial institution authorized and regulated by the Central Bank of Sri Lanka as a wholly owned branch of Deutsche Bank AG ("DBAG") the main banking subsidiary of the Deutsche Bank Group of Germany ("DB Group") located in Frankfurt am Main, Germany and DB Colombo Branch's accounts are consolidated with the accounts of DB Group.

DB Group offers a wide variety of investment, financial and related products and services to private individuals, corporate entities and institutional clients around the world. In July 2019, DB Group announced a material repositioning of DB to refocus on our core strengths and to allow us to improve our structural profitability. Our strategic transformation is designed to refocus our Core Bank around our core, market-leading businesses which typically operate in growing markets with attractive return potential. Our Core Bank comprises our four core operating divisions, namely the Corporate Bank (CB), the Investment Bank (IB), the Private Bank (PB), and Asset Management (AM). Aside from that, a Capital Release Unit (CRU) and Corporate & Other were created to wind down or dispose non-strategic positions, low yielding assets, or businesses that no longer fit into the new strategy. CB combines Deutsche Bank's Corporate Finance and Global Transaction Banking Businesses with the latter providing cash management, trade finance and securities services, delivering the full range of commercial banking products and services for both corporates and institutions worldwide. IB is focusing on Origination & Advisory as well as Fixed Income & Currencies. PB corporate division combines the bank's expertise in private banking and Wealth Management in one corporate division. AM offers individuals and institutions traditional and alternative investments across all major asset classes.

DB Colombo Branch offers a comprehensive range of services such as Cash Management, Trade Finance, Investor Services, Foreign Exchange (FX) and Debt Capital Markets (DCM) products within the Corporate Bank and Investment Bank Business. From 1st January, 2019 onwards, DB Colombo Branch recommenced Fixed Income & Currencies (FIC) business under Asia Local Markets (ALM).

DB Colombo Branch is made up of several supporting local/global infrastructure functions namely; risk, finance, compliance, legal, human resources, etc.

DB Colombo Branch publishes the Pillar 3 disclosure report on a quarterly basis in accordance with Banking Act Direction No. 1 of 2016 issued by the Monetary Board, Central Bank of Sri Lanka and posts the disclosure report in accordance with this Direction on its website at www.db.com/srilanka.

DB Colombo Branch Pillar 3 disclosure is on a stand-alone basis, there are no branches or subsidiaries to be consolidated.

The information provided in this Pillar 3 Disclosure Report is unaudited.

REGULATORY REQUIREMENTS ON CAPITAL AND LIQUIDITY

Key Regulatory Ratios – Capital and Liquidity

Item	Reporting Period Dec 31, 2019	Comparison Reporting Period Dec 31, 2018
Regulatory Capital (LKR '000)		
Common Equity Tier 1, adjusted	11,201,930	9,924,822
Tier 1 Capital	11,201,930	9,924,822
Total Capital	11,205,258	9,924,822
Regulatory Capital Ratios (%)		
Common Equity Tier 1 Capital Ratio *(Minimum Requirement -2019 - 7.00% ; 2018 - 6.375%)*	39.95%	36.60%
Tier 1 Capital Ratio *(Minimum Requirement - 2019 - 8.50% ; 2018 - 7.875%)*	39.95%	36.60%
Total Capital Ratio *(Minimum Requirement - 2019 - 12.50% ; 2018 - 11.875%)*	39.96%	36.60%
Leverage Ratio *(Minimum Requirement - 3%)*	20.06%	N/A
Regulatory Liquidity		
Statutory Liquid Assets (LKR'000)	32,815,712	28,217,803
Statutory Liquid Assets Ratio *(Minimum Requirement - 20%)*		
Domestic Banking Unit (%)	79.03%	105.19%
Off-Shore Banking Unit (%)	80.54%	92.93%
Liquidity Coverage Ratio (%) – Rupee *(Minimum Requirement - 2019 - 100% ; 2018 - 90%)*	389.00%	724.59%
Liquidity Coverage Ratio (%) – All Currency *(Minimum Requirement - 2019 - 100% ; 2018 - 90%)*	310.85%	328.17%

Total Capital Ratio increased by 3.34% points as a result of increased Total capital.

Leverage Ratio under Basel III was implemented w.e.f 01.01.2019 as per the Banking Act Direction No 12 of 2018. The ratio uses Tier 1 capital to judge how leveraged a bank is in relation to its consolidated assets whereas the Tier 1 capital adequacy ratio measures the bank's core capital against its risk-weighted assets.

Statutory Liquid Assets Ratio (SLAR) contracted by approximately 19-25% in both Off-Shore Banking Unit and Domestic Banking Unit between the two reporting periods owing to larger external liability base, in spite of a 16 % growth in Liquid Assets, mainly driven by higher investments in Government Securities and placements in Standing Deposit Facility with Central Bank of Sri Lanka (CBSL). However, liquidity risk is deemed low as SLAR continue to be at healthy levels and well above minimum regulatory requirement.

Liquidity Coverage Ratios – Rupee decreased in Q4, 2019 by 46% as a result of increased Net Cash Outflows. Driving factors are increased LKR denominated deposit base and Net derivative cash outflows.

Liquidity Coverage Ratios – All Currency decreased in Q4, 2019 as a result of increased cash outflows mainly driven by the increased deposit base (current accounts) and increased short term borrowings with maturity less than 1 month. Despite High-Quality Liquid Assets increasing by 33%

between the two reporting periods, the increase in Net Cash Outflows was greater, resulting in a drop in Liquidity Coverage Ratios, which nonetheless remain substantial.

Basel III Computation of Capital Ratios

in LKR '000

Item	Reporting Period Dec 31, 2019	Comparison Reporting Period Dec 31, 2018
Common Equity Tier 1 (CET1) Capital after Adjustments	11,201,930	9,934,623
Common Equity Tier 1 (CET1) Capital	11,162,001	9,921,584
Equity Capital (Stated Capital)/Assigned Capital	4,410,461	4,410,461
Reserve Fund	702,905	641,506
Published Retained Earnings/(Accumulated Retained Losses)	2,305,422	1,126,404
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	39,929	13,039
Goodwill (net)	-	-
Intangible Assets (net)	-	-
Others (Deferred Tax Assets, Vostro)	39,929	13,039
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	3,328	-
Tier 2 Capital	3,328	-
Qualifying Tier 2 Capital Instruments	-	-
Revaluation Gains	-	-
Loan Loss Provisions	3,328	-
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	11,201,930	9,934,623
Total Tier 1 Capital	11,201,930	9,934,623
Total Capital	11,205,258	9,934,623

in LKR '000

Item	Reporting Period Dec 31, 2019	Comparison Reporting Period Dec 31, 2018
Total Risk Weighted Assets (RWA)	28,040,671	27,140,458
RWAs for Credit Risk	21,109,218	21,274,779
RWAs for Market Risk	3,099,888	1,732,817
RWAs for Operational Risk	3,831,765	4,132,831
CET1 Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	39.95%	38.80%
of which: Capital Conservation Buffer (%)	1.88%	1.88%
of which: Countercyclical Buffer (%)	-	-
of which: Capital Surcharge on D-SIBs (%)	-	-
Total Tier 1 Capital Ratio (%)	39.95%	38.80%
Total Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	39.96%	38.80%
of which: Capital Conservation Buffer (%)	1.88%	1.88%
of which: Countercyclical Buffer (%)	-	-
of which: Capital Surcharge on D-SIBs (%)	-	-

Risk Weighted Assets increased by LKR 900 mn mainly driven by increased market risk exposure.

Market risk increased as a result of consideration of interest rate risk associated with Government Securities under Trading category/ Fair Value through Profit & Loss which started to report on the Branch Balance Sheet after re-establishment of FIC business from 1st January 2019 onwards.

Tier 2 Capital under Loan Loss Provisions was implemented from Q2 2019 onwards as per the Explanatory Note issued by Central Bank of Sri Lanka on 18 July 2019. Stage 1 and Stage 2 Expected Credit Loss on Loans & Advances based on SLFR 9 was considered here.

Basel III Computation of Leverage Ratios

in LKR '000

Item	Reporting Period Dec 31, 2019	Comparison Reporting Period Dec 31, 2018
Tier 1 Capital	11,201,930	N/A
Total Exposures	55,847,381	N/A
On-Balance Sheet Items (excluding Derivatives and Securities Financing Transactions, but including Collateral)	50,196,424	N/A
Derivative Exposures	321,103	N/A
Securities Financing Transaction Exposures	-	N/A
Other Off-Balance Sheet Exposures	5,329,834	N/A
Basel III Leverage Ratio (%) (Tier 1/Total Exposure)	20.06%	N/A

Leverage Ratio under Basel III was implemented w.e.f 01.01.2019 as per the Banking Act Direction No 12 of 2018.

The ratio uses Tier 1 capital to judge how leveraged a bank is in relation to its consolidated assets. As per Q4, 2019 results, Branch has 20.06% of Tier 1 capital on the Balance Sheet out of its total exposure.

Basel III Computation of Liquidity Coverage Ratio (All currency)

in LKR '000	Reporting Period Dec 31, 2019		Comparison Reporting Period Dec 31, 2018	
Item	Total Un-weighted Value	Total Weighted Value	Total Un-weighted Value	Total Weighted Value
Total Stock of High-Quality Liquid Assets (HQLA)	-	11,088,028	-	8,335,633
Total Adjusted Level 1A Assets	-	11,088,028	-	8,335,633
Level 1 Assets	-	11,088,028	-	8,335,633
Total Adjusted Level 2A Assets	-	-	-	-
Level 2A Assets	-	-	-	-
Total Adjusted Level 2B Assets	-	-	-	-
Level 2B Assets	-	-	-	-
Total Cash Outflows	38,575,881	14,267,969	32,624,243	9,859,822
Deposits	45,585	5,065	323,401	35,933
Unsecured Wholesale Funding	10,661,822	12,981,634	10,186,907	9,173,864
Secured Funding Transactions	-	-	-	-
Undrawn Portion of Committed (Irrevocable) Facilities and Other Contingent Funding Obligations	27,868,473	635,945	22,113,935	550,395
Additional Requirements	-	645,325	-	99,630
Total Cash Inflows	11,135,079	20,914,635	8,003,400	12,610,701
Maturing Secured Lending Transactions Backed by Collateral	-	-	-	-
Committed Facilities	-	-	-	-
Other Inflows by Counterparty which are Maturing within 30 Days	7,172,536	18,577,456	5,612,259	12,521,259
Operational Deposits	1,672,604	-	2,306,412	-
Other Cash Inflows	2,289,940	2,337,179	84,730	89,443
Liquidity Coverage Ratio (%) (Stock of High Quality Liquid Assets/Total Net Cash Outflows over the Next 30 Calendar Days) * 100		310.85		338.17

Total Stock of High-Quality Liquid Assets (HQLA) increased by 33% as of 31 December, 2019 due to increase in investments in Govt. securities.

Total Cash Outflows increased by 24% as of 31 December, 2019 as a result of increase in the current account deposits base & DBSG short term borrowings.

Note : Calculation basis of Total Net Cash Flow

*If, Total Cash Inflows are greater than 75% of Total Cash Outflows : Total Net Cash Outflows = Total Cash Outflows - 75% * Total Cash Outflows*

If, Total Cash Inflows are not greater than 75% of Total Cash Outflows : Total Net Cash Outflows = Total Cash Outflows - Total Cash Inflows

Main features of Regulatory Capital Instruments

Description of the Capital Instrument	Dec 31, 2019	Dec 31, 2018
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)	702,905	641,508
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)	2,305,422	1,126,452
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)	68,631	(10,483)
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

RISK WEIGHTED ASSETS (RWA)

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 Branch'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 Branch 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 Assets and Liabilities Committee (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.

General contingency plan for dealing with divergences and unexpected events such as raising additional capital, restricting business activities or using risk mitigation techniques:

Recovery & Resolution Planning

The Group Recovery Plan (GRP) aims to outline how DB would restore its financial strength and viability during potential extreme stress situations which threaten DB's capital and liquidity position. The plan is based on a clear governance structure and well-defined recovery indicators that ensure timely and effective decision making and communication within DB and, inter alia, with the supervisory authorities. In achieving this objective, the GRP seeks to ensure the continuity and minimal disruption to DB's critical economic functions (CEFs) and other important dimensions of DB's organisation. A wide range of potential recovery measures can be applied to mitigate severe impacts on DB's capital and/or liquidity position, as required. All recovery measures are comprehensively and consistently documented.

The Group recovery plan is designed to ensure that DB Colombo can face extreme financial crisis and that it meets all its contractual and regulatory requirements.

Credit Risk under Standardised Approach: Credit Risk Exposure and Credit Risk Mitigation (CRM) Effect

in LKR '000	Dec 31, 2019						Dec 31,2018	
	Exposures before Credit Conversion Factor (CCF) and CRM		Exposures post CCF and CRM		RWA and RWA Density (%)		RWA and RWA Density (%)	
Asset Class	On- Balance Sheet Amount	Off- Balance Sheet Amount	On- Balance Sheet Amount	Off- Balance Sheet Amount	RWA	RWA density (%)	RWA	RWA density (%)
Claims on Central Government and CBSL	28,094,232	-	1,843,086	-	1,843,086	7%	1,462,500	5%
Claims on Foreign Sovereigns and their Central Banks	-	-	-	-	-	-	-	-
Claims on Public Sector Entities	-	-	-	-	-	-	-	-
Claims on Official Entities and Multilateral Development Banks	-	-	-	-	-	-	-	-
Claims on Banks Exposures	1,478,028	3,977,766	297,239	2,606,894	2,904,134	10%	4,375,043	15%
Claims on Financial Institutions	-	-	-	-	-	-	-	-
Claims on Corporates	14,202,219	1,721,274	13,365,119	1,618,891	14,985,810	50%	12,876,423	47%
Retail Claims	325,620	-	263,304	-	263,304	1%	215,928	1%
Claims Secured by Residential Property	114,166	-	114,166	-	114,166	0%	120,627	0%
Claims Secured by Commercial Real Estate	-	-	-	-	-	-	-	-
Non-Performing Assets (NPAs)(i)	-	-	-	-	-	-	-	-
Higher-risk Categories	-	-	-	-	-	-	-	-
Cash Items and Other Assets	1,046,870	-	998,899	-	998,899	4%	2,222,156	8%
Total	45,282,219	5,709,170	16,835,633	4,223,585	21,109,218	75%	21,274,779	78%

Credit Risk Exposure on Central Government and CBSL has increased by 26% due to increase in investments in Sri Lanka Development Bonds, continuous increase in Treasury bond portfolio over the period and placements in Standing Deposit Facility with Central Bank of Sri Lanka (CBSL).

Credit Risk Exposure on Banks has decreased by 34% in Q4 2019 because of the low level of investments in placements with local banks.

Credit Risk Exposure on lending to corporates and retail claims (Small and Medium Enterprises) have increased by 16% & 22% respectively as at December 31, 2019.

Credit Risk under Standardised Approach: Exposures by Asset Classes and Risk Weights

in LKR'000

Description								Dec 31, 2019 Post CCF & CRM	Dec 31,2018
Asset Class / Risk Weight	0%	20%	50%	75%	100%	150%	>150%	Total Credit Exposures Amount	Total Credit Exposures Amount
Claims on Central Government and Central Bank of Sri Lanka	-	1,842,086	-	-	-	-	-	1,842,086	1,463,600
Claims on Foreign Sovereigns and their Central Banks	-	-	-	-	-	-	-	-	-
Claims on Public Sector Entities	-	-	-	-	-	-	-	-	-
Claims on Official Entities and Multilateral Development Banks	-	-	-	-	-	-	-	-	-
Claims on Banks Exposures	-	392,122	1,103,259	-	1,438,752	-	-	2,934,134	4,375,043
Claims on Financial Institutions	-	-	-	-	-	-	-	-	-
Claims on Corporates	-	166,327	192,476	-	14,626,007	-	-	14,985,810	12,876,422
Retail Claims	-	-	-	183,948	78,356	-	-	262,304	215,928
Claims Secured by Residential Property	-	-	-	-	114,186	-	-	114,186	120,927
Claims Secured by Commercial Real Estate	-	-	-	-	-	-	-	-	-
Non-Performing Assets (NPAs)	-	-	-	-	-	-	-	-	-
Higher-risk Categories	-	-	-	-	-	-	-	-	-
Cash Items and Other Assets	-	-	-	-	998,699	-	-	998,699	2,222,158
Total	-	2,401,535	1,295,735	183,948	17,254,000	-	-	21,109,218	21,274,779

Market Risk under Standardised Measurement Method

in LKR '000	RWA amount	
Item	Dec 31, 2019	Dec 31, 2018
(a) RWA for Interest Rate Risk	147.409	-
General Interest Rate Risk	147.409	-
(i) Net Long or Short Position	147.409	-
(ii) Horizontal Disallowance	-	-
(iii) Vertical Disallowance	-	-
(iv) Options	-	-
Specific Interest Rate Risk	-	-
(b) RWA for Equity	-	-
(i) General Equity Risk	-	-
(ii) Specific Equity Risk	-	-
(c) RWA for Foreign Exchange & Gold	240.052	205.772
Capital Charge for Market Risk [(a) + (b) + (c)] * CAR	3.099.688	1.732.817

Market risk increased as a result of consideration of interest rate risk associated with government securities under trading category.

Operational Risk under Basic Indicator Approach

Business Lines	Capital Charge Factor	Fixed Factor	Gross Income (LKR'000) as at Dec 31, 2019 1st Year	2nd Year	3rd Year	Capital Charge Factor	Fixed Factor	Gross Income (LKR'000) as at Dec 31, 2018 1st Year	2nd Year	3rd Year
The Basic Indicator Approach	15%		3,244,938	3,192,792	3,130,892	15%		3,379,805	3,244,938	3,090,771
The Standardised Approach										
Corporate Finance	18%		-	-	-	18%		-	-	-
Trading and Sales	18%		-	-	-	18%		-	-	-
Payment and Settlement	18%		-	-	-	18%		-	-	-
Agency Services	15%		-	-	-	15%		-	-	-
Asset Management	12%		-	-	-	12%		-	-	-
Retail Brokerage	12%		-	-	-	12%		-	-	-
Retail Banking	12%		-	-	-	12%		-	-	-
Commercial Banking	15%		-	-	-	15%		-	-	-
The Alternative Standardised Approach										
Corporate Finance	18%		-	-	-	18%		-	-	-
Trading and Sales	18%		-	-	-	18%		-	-	-
Payment and Settlement	18%		-	-	-	18%		-	-	-
Agency Services	15%		-	-	-	15%		-	-	-
Asset Management	12%		-	-	-	12%		-	-	-
Retail Brokerage	12%		-	-	-	12%		-	-	-
Retail Banking	12%	0.035	-	-	-	12%	0.035	-	-	-
Commercial Banking	15%	0.035	-	-	-	15%	0.035	-	-	-
Capital Charges for Operational Risk (LKR'000)										
The Basic Indicator Approach	478,571					450,777				
The Standardised Approach	-					-				
The Alternative Standardised Approach	-					-				
Risk Weighted Amount for Operational Risk (LKR'000)										
The Basic Indicator Approach	3,831,785					4,132,391				
The Standardised Approach	-					-				
The Alternative Standardised Approach	-					-				

LINKAGES BETWEEN FINANCIAL STATEMENTS AND REGULATORY EXPOSURES

Differences between Accounting and Regulatory Scopes and Mapping of Financial Statement Categories with Regulatory Risk Categories – Bank only and Explanations of differences between Accounting and Regulatory exposure amounts

in LKR '000 Dec 31, 2019	a Carrying Values as Reported in Published Financial Statements	b Carrying Values under Scope of Regulatory Reporting	c Subject to Credit Risk Framework	d Subject to Market Risk Framework	e Not subject to Capital Requirements or Subject to Deduction from Capital	a-b Difference between Published Financials and Regulatory Reporting	Explanation on differences between (a) and (b)
Assets	50,181,319	50,160,609					
Cash and cash equivalents	115,888	115,888	115,888	-	-		
Balances with Central Banks	7,878,845	7,878,845	7,878,845	-	-	0	
Placement with Banks	751,258	750,000	750,000	-	-	1,258	Accrued interest of placements reported under Other Assets in Regulatory Reporting
Placements with Branches	3,875,054	3,874,922	-	-	3,874,922	132	
Securities borrowed	-	-	-	-	-	-	
Derivative financial instruments	27,878	-	-	-	-	27,878	This amount is classified under Other Assets in Regulatory Reporting
Group balances receivable	1,706,880	1,706,880	762,365	-	944,515	(0)	
Financial assets recognized through profit or loss	-	-	-	-	-	-	
- measured at fair value	6,799,440	20,084,010	6,799,440	-	-	(13,284,570)	Reclassification of Financial assets measured at fair value through other comprehensive income in published financial statements.
- designated at fair value	-	-	-	-	-	-	
Financial assets at amortised cost	-	-				-	
- loans and advances	14,535,585	14,569,510	14,843,025	-	-	59,325	Carrying value under Regulatory Reporting is as per the Banking Act Direction No.3 of 2008 ; Classification of Loans and Advances, Income Recognition and Provisioning. The carrying value of loans and advances in the published financial statements has been subjuct to impairment provisions as per SLFRS 9.
- debt and other instruments	-	-	-	-	-		
Financial assets measured at fair value through other comprehensive income	13,740,778	-	13,618,143	-	-	13,740,778	Reclassification of Financial assets measured at fair value through other comprehensive income in published financial statements. And reclassification of coupon interest receivable from other assets
Securities held to maturity	-	-	-	-	-	-	
Investments in subsidiaries	-	-	-	-	-	-	
Investments in associates and joint ventures	-	-	-	-	-	-	
Property, plant and equipment	172,235	130,582	130,582	-	-	41,653	IFRS 16 - Right-of-Use Assets recognition
Investment properties	-	-	-	-	-	-	
Goodwill and intangible assets	-	-	-	-	-	-	
Assets for current tax	-	-	-	-	-	-	
Deferred tax assets	-	24,302	-	-	-	(24,302)	
Other assets	665,587	1,227,680	1,227,680	-	-	(562,093)	Derivative Financial instruments and interest receivable on financial assets are included in other assets in Regulatory Reporting.

LINKAGES BETWEEN FINANCIAL STATEMENTS AND REGULATORY EXPOSURES

in LKR '000 Dec 31, 2019	a Carrying Values as Reported in Published Financial Statements	b Carrying Values under Scope of Regulatory Reporting	c Subject to Credit Risk Framework	d Subject to Market Risk Framework	e Not subject to Capital Requirements or Subject to Deduction from	a-b Difference between Published Financials and Regulatory	Explanation on differences between (a) and (b)
Liabilities	**50,181,319**	**50,160,699**					
Due to banks	-	-	N/A	N/A	N/A		
Due to branches	17,816,192	17,686,500			17,686,500	129,692	Accrued interest of borrowings reported under Other Liabilities in Regulatory Reporting
Derivative financial instruments	40,243	-	N/A	N/A	N/A	40,243	This amount is classified under Other Liabilities in Regulatory Reporting
Financial liabilities designated at fair value through		-	N/A	N/A	N/A	-	
- measured at fair value	-	-	N/A	N/A	N/A	-	
- designated at fair value	-	-	N/A	N/A	N/A	-	
Financial liabilities at amortised cost		-	N/A	N/A	N/A	-	
- due to depositors	18,714,491	18,684,219	N/A	N/A	N/A	30,272	Accrued interest on deposits reported under Other Liabilities in Regulatory Reporting
- due to debt securities holders	-	-	N/A	N/A	N/A	-	
- due to other borrowers	-	-	N/A	N/A	N/A	-	
Debt securities issued	-	-	N/A	N/A	N/A	-	
Retirement benefit obligations	65,170	65,170	N/A	N/A	N/A	-	
Current tax liabilities	133,763	213,821	N/A	N/A	N/A	(80,058)	Published Financial Statements considers Tax effects considering SLFRS impact
Deferred tax liabilities	28,956	-	N/A	N/A	N/A	28,956	Due to tax effects on unrealized/gains losses of FVTOCI instruments being accounted in OCI in the reported Published Financial Statements
Long term debts	-	-	N/A	N/A	N/A	-	
Other provisions	-	-	N/A	N/A	N/A	-	
Other liabilities	217,324	472,627	N/A	N/A	N/A	(255,303)	Regulatory Reporting includes derivative financial instruments and accrued interest payable all of which are disclosed under separate categories in Published Financial Statements and also includes net effect of Loan loss provisioning adjustments (provisioning under Regulatory Directive vs SLFRS)
Group balances payable	3,157,722	3,157,722			49,951	0	
Off-Balance Sheet Liabilities							
Guarantees	7,930,312	7,930,312	7,930,312	-	-	-	
Performance Bonds	-	-	-	-	-	-	
Letters of Credit	3,715,109	3,715,109	3,715,109	-	-		
Other Contingent Items	1,014,305	22,297,262	20,040,262	-	-	(21,282,957)	Fx spot/forward contracts are reported net in Published Financial Statements
Undrawn Loan Commitments	15,776,274	15,785,524	15,785,524	-	-	(9,250)	
Other Commitments	-	-	-	-	-	-	

in LKR '000 Dec 31, 2019	a Carrying Values as Reported in Published Financial Statements	b Carrying Values under Scope of Regulatory Reporting	c Subject to Credit Risk Framework	d Subject to Market Risk Framework	e Not subject to Capital Requirements or Subject to Deduction from Capital	a-b Difference between Published Financials and Regulatory Reporting	Explanation on differences between (a) and (b)
Shareholders' Equity							
Equity Capital (Stated Capital)/Assigned Capital	4,410,461	4,410,462	N/A	N/A	N/A	(1)	
of which Amount Eligible for CET1	4,410,461	4,410,462	N/A	N/A	N/A	(1)	
of which Amount Eligible for AT1	-	-	N/A	N/A	N/A	-	
Retained Earnings	2,305,423	2,387,407	N/A	N/A	N/A	(81,984)	Accumulated SLFRS adjustments in Published Financial Statements
Accumulated Other Comprehensive Income	88,631	-	N/A	N/A	N/A	88,631	Reported in Other Reserves in Regulatory reporting
Other Reserves	5,219,932	5,077,752	N/A	N/A	N/A	142,180	Regualtory Reporting includes OCI and exchange equalisation of Capital and Reserves
Total Shareholders' Equity	**12,002,447**	**11,875,621**	N/A	N/A	N/A		

Description of systems and controls to ensure that the valuation estimates are prudent and reliable:

Financial Instruments carried at Fair Value

Valuation Methods and Control

The Group has an established valuation control framework which governs internal control standards, methodologies, and procedures over the valuation process.

Prices Quoted in Active Markets – The fair value of instruments that are quoted in active markets are determined using the quoted prices where they represent prices at which regularly and recently occurring transactions take place.

Valuation Techniques – The Group uses valuation techniques to establish the fair value of instruments where prices, quoted in active markets, are not available. Valuation techniques used for financial instruments include modelling techniques, the use of indicative quotes for proxy instruments, quotes from recent and less regular transactions and broker quotes.

For some financial instruments a rate or other parameter, rather than a price, is quoted. Where this is the case then the market rate or parameter is used as an input to a valuation model to determine fair value. For some instruments, modelling techniques follow industry standard models, for example, discounted cash flow analysis and standard option pricing models. These models are dependent upon estimated future cash flows, discount factors and volatility levels. For more complex or unique instruments, more sophisticated modelling techniques are required, and may rely upon assumptions or more complex parameters such as correlations, prepayment speeds, default rates and loss severity.

Frequently, valuation models require multiple parameter inputs. Where possible, parameter inputs are based on observable data or are derived from the prices of relevant instruments traded in active markets. Where observable data is not available for parameter inputs, then other market information is considered. For example, indicative broker quotes and consensus pricing information are used to support parameter inputs where they are available. Where no observable information is available to support parameter inputs then they are based on other relevant sources of information such as prices for similar transactions, historic data, economic fundamentals, and research information, with appropriate adjustment to reflect the terms of the actual instrument being valued and current market conditions.

Valuation Adjustments – Valuation adjustments are an integral part of the valuation process. In making appropriate valuation adjustments, the Group follows methodologies that consider factors such as bid-offer spreads, counterparty/own credit and funding risk. Bid-offer spread valuation adjustments are required to adjust mid-market valuations to the appropriate bid or offer valuation. The bid or offer valuation is the best representation of the fair value for an instrument, and therefore its fair value. The carrying value of a long position is adjusted from mid to bid, and the carrying value of a short position is adjusted from mid to offer. Bid-offer valuation adjustments are determined from bid-offer prices observed in relevant trading activity and in quotes from other broker-dealers or other knowledgeable counterparties. Where the quoted price for the instrument is already a bid-offer price then no additional bid-offer valuation adjustment is necessary. Where the fair value of financial instruments is derived from a modelling technique, then the parameter inputs into that model are normally at a mid-market level. Such instruments are generally managed on a portfolio basis and, when specified criteria are met, valuation adjustments are taken to reflect the cost of closing out the net exposure the Branch has to individual market or counterparty risks. These adjustments are determined from bid-offer prices observed in relevant trading activity and quotes from other broker-dealers.

Where complex valuation models are used, or where less-liquid positions are being valued, then bid-offer levels for those positions may not be available directly from the market, and therefore for the close-out cost of these positions, models and parameters must be estimated. When these adjustments are designed, the Group closely examines the valuation risks associated with the model as well as the positions themselves, and the resulting adjustments are closely monitored on an ongoing basis Counterparty Credit Valuation Adjustments (CVAs) are required to cover expected credit losses to the extent that the valuation technique does not already include an expected credit loss factor relating to the non-performance risk of the counterparty. The CVA amount is applied to all relevant over-the-counter (OTC) derivatives, and is determined by assessing the potential credit exposure to a given counterparty and taking into account any collateral held, the effect of any relevant netting arrangements, expected loss given default and the probability of default, based on available market information, including Credit Default Swap (CDS) spreads. Where counterparty CDS spreads are not available, relevant proxies are used.

The fair value of the Group's financial liabilities at fair value through profit or loss (i.e., OTC derivative liabilities and structured note liabilities designated at fair value through profit or loss) incorporates Debt Valuation Adjustments (DVA) to measure the change in the Group's own credit risk of the financial liability. For derivative liabilities the Group considers its own creditworthiness by assessing all counterparties' potential future exposure to the Group, taking into account any collateral posted by the Group, the effect of relevant netting arrangements, expected loss given default and the probability of default of the Group, based on the Group's market CDS level. The change in the Group's own credit risk for structured note liabilities is calculated by discounting the contractual cash flows of the instrument using the rate at which similar instruments would be issued at the measurement date as this reflects the value from the perspective of a market participant who holds the identical item as an asset.

When determining CVA and DVA, additional adjustments are made where appropriate to achieve fair value, due to the expected loss estimate of a particular arrangement, or where the credit risk being assessed differs in nature to that described by the available CDS instrument.

Funding Valuation Adjustments (FVA) are required to incorporate the market implied funding costs into the fair value of derivative positions. The FVA reflects a discounting spread applied to uncollateralized and partially collateralized derivatives and is determined by assessing the market-implied funding costs on both assets and liabilities.

Where there is uncertainty in the assumptions used within a modelling technique, an additional adjustment is taken to calibrate the model price to the expected market price of the financial instrument. Typically, such transactions have bid-offer levels which are less observable, and these adjustments aim to estimate the bid-offer by computing the liquidity-premium associated with the transaction. Where a financial instrument is of sufficient complexity that the cost of closing it out would be higher than the cost of closing out its component risks, then an additional adjustment is taken to reflect this.

Valuation Control – The Group has an independent specialized valuation control group within the Finance function which governs and develops the valuation control framework and manages the valuation control processes. The mandate of this specialist function includes the performance of the independent valuation control process for all businesses, the continued development of valuation control methodologies and techniques, as well as devising and governing the formal valuation control policy framework. Special attention of this independent valuation control group is directed to areas where management judgment forms part of the valuation process.

Results of the valuation control process are collected and analyzed as part of a standard monthly reporting cycle. Variances of differences outside of preset and approved tolerance levels are escalated both within the Finance function and with Senior Business Management for review, resolution and, if required, adjustment.

For instruments where fair value is determined from valuation models, the assumptions and techniques used within the models are independently validated by an independent specialist model validation group that is part of the Group's Risk Management function.

Quotes for transactions and parameter inputs are obtained from a number of third party sources including exchanges, pricing service providers, firm broker quotes and consensus pricing services. Price sources are examined and assessed to determine the quality of fair value information they represent, with greater emphasis given to those possessing greater valuation certainty and relevance. The results are compared against actual transactions in the market to ensure the model valuations are calibrated to market prices.

Price and parameter inputs to models, assumptions and valuation adjustments are verified against independent sources. Where they cannot be verified to independent sources due to lack of observable information, the estimate of fair value is subject to procedures to assess its reasonableness. Such procedures include performing revaluation using independently generated models (including where existing models are independently recalibrated), assessing the valuations against appropriate proxy instruments and other benchmarks, and performing extrapolation techniques. Assessment is made as to whether the valuation techniques produce fair value estimates that are reflective of market levels by calibrating the results of the valuation models against market transactions where possible.

RISK MANAGMENT

Risk Management Approach

DB 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, financial position 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 centralised Risk coverage to DB Colombo. DB's Hubs include staff from relevant Risk-types ensuring effective risk management and capitalise 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	Eight Meetings per Annum

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 Branch'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.
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.

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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

IRRBB is the current or prospective risk, to both the Bank's capital and earnings, arising from adverse movements in interest rates, which affect the Bank's banking book exposures. This includes gap risk, which arises from the term structure of banking book instruments, basis risk, which describes the impact of relative changes in interest rates for financial instruments that are priced using different interest rate curves, as well as option risk, which arises from option derivative positions or from optional elements embedded in the Bank's on- and off-balance sheet items.

The Bank measures the impact of interest rate risk in the banking book on the Bank's economic value as well as on the Bank's earnings. Our Group Treasury division is mandated to manage on a fiduciary basis the interest rate risk centrally, with Market & Valuation Risk Management acting as an independent oversight function. As per DB global policy, only Corporate and Investment Bank (CIB) is allowed to run market risk. The majority of the Group interest rate risk arising from non-trading asset and liability positions, has been transferred through internal transactions to the Treasury, subject to banking book value at risk limits. Treasury hedges the transferred net banking book risk with CIB trading books. CIB interest rate risk is managed on the basis of trading book VaR as reflected in trading portfolio figures. However, there may be small residual FX or interest rate risk that remains 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 seven 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)
- Net Stable funding ratio (NSFR)

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 Branch's activities and are sensitive to the material risk types the Branch 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 Branch'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 Branch 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 Branch 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 Branch, as well as liquidity stress testing (where relevant).

Stress Testing governance and processes

Benchmark stress tests

Benchmark stress tests are generally based on severe macroeconomic downturn scenarios calibrated to an approximately 20% likelihood of occurrence over a period of twelve months. Although the scenario probability is expected to stay constant, the actual assumptions used in the scenario depend on the macroeconomic and financial conditions and outlook at the time of running it. A representative scenario run in the past was the 'European recession scenario' assuming for example that a toxic combination of weaker than expected gross domestic product (GDP) growth, ongoing political instability in the European Monetary Union (EMU) periphery and renewed stress in the financial system cause a vicious circle, leading to even deeper recession in EMU. The regular group-wide macro benchmark stress tests are performed on the quarter-end portfolios (four regular stress tests per year).

As part of the Legal Entity ICAAP Program DB Colombo receives on a quarterly basis the results of the stress tests based on the benchmark scenario applied on group level.

Credit risk stress testing
Credit risk stress tests of economic capital and also local regulatory demand are based on Group Credit Risk Stress Test methodology (Global Downturn or another macroeconomic stress scenario). The results are provided by Group on a quarterly basis in a standard template. In general, legal entity stress test can be performed using the group-allocated view or the standalone view. In the former case, one considers transactions of the legal entity towards DB group as risk free, whereas in the latter case, only transactions within the legal entity are considered as risk free. Deviations from the provided credit risk stress tests required to reflect local specifics or local regulatory requirements have to be approved by the Group.

The stress on local credit risk regulatory capital is calculated locally. For this purpose, the specifically calculated rating migration matrix (based on the Global Downturn Scenario or another macroeconomic stress scenario) provided by Group is applied to the local rated portfolio. The migration matrix is an output from the Group Credit Stress Test (GCST) which is the macroeconomic downturn (as mentioned above) applied on the bank's credit portfolio using the internal EC model to calculate rating downgrade impact. By applying regulatory risk weights to the exposure of the derived portfolio, stressed RWA are calculated.
For non-rated portfolios DB Colombo defines adequate credit risk stress tests in close coordination with the central ICAAP team and the respective Group function.

Liquidity risk stress testing
DB Colombo is fully integrated into the Group's liquidity risk management framework, and as such performs liquidity stress tests on a regular basis. The stress test framework is derived from DB's global stress testing framework, and adjusted to cover local market peculiarities, where necessary.
Liquidity stress test results are computed by Liquidity and Treasury Reporting and Analysis (LTRA) team based on the standards described in the Group Liquidity Stress Testing Methodology. Stress models and parameters are adjusted to cover local market and product specifications, which are reviewed and validated by APAC Liquidity Risk Management (LRM) in its capacity as an independent risk unit and approved at the local ALCO. Stress tests results are discussed regularly in the local ALCO, where local Branch Management Board (BMB) members are also members of ALCO. Liquidity stress testing models (including all applicable assumptions) are reviewed at least annually to ensure that all stress parameters are sufficiently severe and remain relevant to DB Colombo. Any changes in liquidity stress testing models/ assumptions are subject to ALCO and APAC LRM (Liquidity Risk Management) team's approval prior to the implementation.

Market risk stress testing
Stress testing is a key risk management technique, which evaluates the potential effects of extreme market events and extreme movements in individual risk factors. It is one of the core quantitative tools used to assess the market risk of the Bank's positions and its primary application is within the EC framework. The scenario-based approach in stress testing is complementary to statistical model approaches as for VaR. Group MRM performs several types of stress testing to capture the variety of risks: individual business-level stress tests, MRM portfolio stress testing (e.g. Portfolio Stress Testing (PST), Event Risk Scenarios (ERS), and Group-wide stress testing).

Operational risk stress testing

The Branch is fully integrated into the Group's Operational Risk Management Framework, and as such performs Operational Risk stress tests on a regular basis. The local stress test framework is derived from DB's global stress testing framework.

Group Operational Risk translates group operational risk stress impact into DB operational risk factors for EC and respective RC which are applied to the Branch's local EC and RC figures. The stressed operational risk factors for EC and RC are calculated at least on an Annual basis by translating the macro economic assumptions of the global downturn scenario into expert based 'workable' operational risk assumptions.

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 DB specific (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, severe idiosyncratic or combined stress, DB Colombo has established a 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 Branch'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 Branch'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, confirmation of key system availability and convening and ad-hoc ALCO.

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 Branch 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 opt-in to 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 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.

<u>Contingency plans to handle failure and situations:</u>

Business Process Disruption Risk is the risk of failure in the business' ability to resume relevant business activities after disruptions affecting staff, infrastructure (buildings, IT infrastructure & applications) and/or vendors (NFRM Risk Type Taxonomy v3.1). The Branch is required to maintain an appropriate level of availability for its services in the event of operational disruption. Business Continuity Management (BCM) describes the set of activities that the Branch conducts to prepare for and, more importantly, recovery from such an event. BCM activities are designed to limit inadequate recovery and thus mitigate 'Business Process Disruption' risk. They are by nature iterative and cyclical. The Branch's BCM framework, including the Business Continuity Management Policy – DB Group, is derived from the existing regulation globally and industry standards, particularly ISO 22301 (2012) and its 'Plan-Do-Check-Act' cycle (per the BCM Lifecycle).

Testing business continuity capabilities is a required component of the Branch's BCM program. The Business Continuity Document (BC Document) records the effect of operational disruption and the associated plan to recover from it. It consists of: Business Impact Analysis (BIA), including process or functional structure, technology requirements and dependencies; Recovery Objectives to meet the relevant risk appetite(s); Recovery Strategies (i.e. the plan) across all impact types and including appropriate recovery capabilities for each. Business Recovery Solution Test validates that the Recovery Strategies given in the BC Document across all impact scenarios are effective and supported by the appropriate resources. Awareness Training ensures all staff within a Recovery Unit are aware of their business continuity response mechanism and recovery strategies, as given in the BC Document. Call Tree Test confirms the ability to communicate with staff in the event of disruption, via either a mass notification tool or manual call cascades. Training and Testing requirement is completed annually.

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.

Risk Management Related to Key Risk Exposures

i) **Credit Risk**

a) Breakdown of exposures subject to credit risk by major types, geographical areas, sectors and residual maturity.

(a) (i) Total gross credit risk exposures broken down by major types of credit exposure.

In TLKR	2019 as at 31 Dec	2018 as at 31 Dec
Balances with Central bank of Sri Lanka	7,876,645	2,607,527
Balances with Banks & Financial Institutions	67,697	16,211
Placements with Banks	751,258	3,200,611
Group balances receivable	5,561,934	6,041,558
Investment in Government Securities	20,497,879	15,298,140
Other investments	42,339	1,600
Loans and Advances	14,643,025	11,982,229
Total on-balance sheet items	49,260,777	39,147,876
Letters of credit	3,715,105	1,054,286
Guarantees	7,930,312	8,342,955
Acceptances	365,940	776,842
Derivatives (net)	(59,172)	1,126
Usance Import bills	707,537	832,210
Undrawn credit lines	15,776,274	11,656,433
Other	-	-
Total off-balance sheet items	28,425,966	22,662,852

Source : Audited accounts.

<u>(a) (ii) Geographic distribution of exposures, broken downs in significant areas by types of credit exposure.</u>

As at 31st Dec 2019 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		7,676,645	7,676,645					
Balances with Banks & Financial Institutions		-	-	24,533	1,557		41,607	
Placements with Banks		751,258	751,258					
Group balances receivable			-	4,007,723	660,391		913,820	
Investment in Government Securities		20,497,879	20,497,879					
Other investments		42,339	42,339					
Loans and Advances	-	14,643,025	14,643,025					
Total on-balance sheet items	-	43,611,146	43,611,146	4,032,256	661,949	-	955,427	-
Letters of credit		3,715,105	3,715,105					
Guarantees		1,168,530	1,168,530	4,343,665			2,418,117	
Acceptances		365,940	365,940					
Derivatives (gross)		(59,172)	(59,172)					
Usance Import bills		707,537	707,537					
Undrawn credit lines		15,776,274	15,776,274					
Other		-	-					
Total off-balance sheet items	-	21,674,213	21,674,213	4,343,665	-	-	2,418,117	-
Total Exposure	-	65,285,359	65,285,359	8,375,921	661,949	-	3,373,544	-

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	-

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

31st December 2019 In TLKR	Bills of Exchange	Overdrafts	Export Finance	Trade Finance	Supplier finance	Other	Total
Agriculture & Fishing	-	2,655	-	-	-	-	2,655
Manufacturing	-	3,545,858	-	1,662,155	229,754	-	5,437,767
Tourism	-	552,227	-	-	-	-	552,227
Transport	-	200,466	-	-	-	-	200,466
Construction	-	2,354,374	-	-	-	114,934	2,469,308
Trading	-	3,825,180	-	1,094,422	-	-	4,919,601
Telecommunications	-	-	-	-	-	-	-
Financial & Business Services	-	-	-	-	-	-	-
Professional, Scientific & Technical	-	985,374	-	-	-	-	985,374
Other	-	-	-	-	-	75,626	75,626
Total	-	11,466,134	-	2,756,578	229,754	190,560	14,643,025

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

(a) (iv) Residual contractual maturity breakdown of the whole credit portfolio, by major types of credit exposure

		31-Dec-19		31-Dec-18	
In Tlkr	Type	Utlisation/Exposure	Total	Utlisation/Exposure	Total
< 1 year	On-balance sheet	38,602,459		35,318,683	
	Off-Balance Sheet	10,392,801	48,995,260	17,890,659	53,209,342
1 year- 5 years	On-balance sheet	10,594,159		3,742,980	
	Off-Balance Sheet	1,567,466	12,161,625	3,502,189	7,245,169
> 5 years	On-balance sheet	64,159		86,213	
	Off-Balance Sheet	16,475,729	16,539,888	1,271,004	1,357,217

b) Description of policies, process, methods and key definitions on impairment/classification of exposures subject to credit risk.
(As per SLFRS9 – adopted for Published Accounts and Audited Financial Statements)

Impairment of Loans and Provision for Off-Balance Sheet Positions

The impairment requirements of SLFRS 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 LKAS 39, to an expected credit loss model under SLFRS 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

SLFRS 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, according to the Capital Requirements Regulation under Art. 178.
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 Branch 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
SLFRS 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.

c) Breakdown of exposures subject to credit risk (both on and off-balance sheet) in to impaired and non-impaired (as per financial reporting) with related details on collateral/cash flows, impairment allowances, write-offs and net exposure, by type-wise and age analysis-wise.

(c) (i) & (d) (i) 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 2013	Gross exposure	Collateral	Net exposure	Description of collateral	Description of Credit Quality
Balances with Central Bank of Sri Lanka	7,676,645		7,676,645	n/a	Sovereign Risk
Balances with Banks & Financial Institutions	67,697		67,697	n/a	92% of exposure with AAA to A- rated counterparts and 8% of exposure with BBB+ to BBB- rated counterparts
Placements with Banks	751,258		751,258		100% of exposure with AAA to BBB- locally rated counterparts.
Group balances receivable	5,581,934		5,581,934		Credit risk exposure of Group Receivables
Investment in Government Securities	20,497,879		20,497,879	n/a	Sovereign Risk
Other investments	42,339		42,339	n/a	Regulatory mandated investments in Lanka Clear & CRIB, subject to credit risk
Loans and Advances	14,643,025		14,643,025	Refer Note *	5.9% of exposure with AAA to AA- and 2% of exposure with A+ to A- locally reated 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	49,260,777	-	49,260,777		
Letters of credit	3,715,105		3,715,105		
Guarantees	7,930,312		7,930,312		
Acceptances	365,940		365,940	Refer Note *	Total credit equivalent of off b/s exposures is LKR 5.7 bio, of which 53% of the exposure is with AAA to BBB- counterparts. All performing as at period end.
Derivatives (net)	(59,172)		(59,172)		
Usance Import bills	707,537		707,537		
Undrawn credit lines	15,776,274		15,776,274		
Other	-		-		
Total off-balance sheet items	28,435,996	-	28,435,996		

In TLKR 31st December 2013	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 Institutions	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 *	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 8.7% of the exposure is with AAA to A- counterparts and 39% of the exposure is with BBB+ 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		

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.

d) Breakdown of exposures subject to credit risk (both on and off-balance sheet) in to performing and nonperforming (as per regulatory reporting) with related details on collateral value, specific provision, write-offs and net exposure, by type-wise and age analysis-wise.

Please refer combined table under c).

Below table provides analysis of exposures subject to impairment under both financial and regulatory reporting.

In TLKR 31st December 2019	Gross Out standing balance	Impairment as per financial reporting		Impairment as per regulatory reporting		Net exposure as per financial reporting	Net exposure as per regulatory reporting
		Specific	Collective	Specific	Collective		
Balances with Central Bank of Sri Lan	7,676,645	-	-	-	-	7,676,645	7,676,645
Balances with Banks & Financial Instit	67,697	-	-	-	-	67,697	67,697
Placements with Banks	751,258	-	-	-	-	751,258	751,258
Gropup balances receivable	5,581,934	-	-	-	-	5,581,934	5,581,934
Investment in Government Securities	20,497,879	-	-	-	-	20,497,879	20,497,879
Other investments	42,339	-	-	-	-	42,339	42,339
Loans and Advances	14,643,025	-	3,329	-	73,215	14,639,695	14,569,809
Total on-balance sheet items	49,260,777	-	3,329	-	73,215	49,257,448	49,187,562
						-	-
Letters of credit	3,715,105	-	-	-	-	3,715,105	3,715,105
Guarantees	7,930,312	-	-	-	-	7,930,312	7,930,312
Acceptances	365,940	-	-	-	-	365,940	365,940
Derivatives (net)	(59,172)	-	-	-	-	(59,172)	(59,172)
Undrawn credit lines	707,537	-	-	-	-	707,537	707,537
Usance Import bills	15,776,274	-	-	-	-	15,776,274	15,776,274
Other	-	-	-	-	-	-	-
Total off-balance sheet items	28,435,996	-	-	-	-	28,435,996	28,435,996

In TLKR 31st December 2018	Gross Out standing balance	Impairment as per financial reporting		Impairment as per regulatory reporting		Net exposure as per financial reporting	Net exposure as per regulatory reporting
		Specific	Collective	Specific	Collective		
Balances with Central Bank of Sri Lan	2,607,527	-	-	-	-	2,607,527	2,607,527
Balances with Banks & Financial Instit	16,211	-	-	-	-	16,211	16,211
Placements with Banks	3,200,611	-	-	-	-	3,200,611	3,200,611
Gropup balances receivable	6,041,558	-	-	-	-	6,041,558	6,041,558
Investment in Government Securities	15,298,140	-	-	-	-	15,298,140	15,298,140
Other investments	1,600	-	-	-	-	1,600	1,600
Loans and Advances	11,982,229	-	5,005	-	59,911	11,977,224	11,922,318
Total on-balance sheet items	39,147,876	-	5,005	-	59,911	39,142,872	39,087,965
						-	-
Letters of credit	1,054,286	-	-	-	-	1,054,286	1,054,286
Guarantees	8,342,955	-	-	-	-	8,342,955	8,342,955
Acceptances	776,842	-	-	-	-	776,842	776,842
Derivatives (net)	1,126	-	-	-	-	1,126	1,126
Undrawn credit lines	11,656,433	-	-	-	-	11,656,433	11,656,433
Usance Import bills	832,210	-	-	-	-	832,210	832,210
Other	-	-	-	-	-	-	-
Total off-balance sheet items	22,663,852	-	-	-	-	22,663,852	22,663,852

e) The extent of non-performing loans, that are not considered to be impaired and the reasons for this.

N/A

ii) Market Risk

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

Sensitivity of Assets and Liabilities

(Currency - LKR mio)
As at 31 Dec 2015

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	-	-	-	-	-	-	-	-	-	-	-	-	-	7,677	7,677
3	Balances due from HO/Affiliates/Branches	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4	Balances due from Other Banks	750	-	-	-	-	-	-	-	-	-	-	-	-	-	750
5	Investments	1,100	986	239	3,629	5,059	-	-	-	-	-	-	-	-	2	11,015
6	Bills of Exchange and Promissory Notes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7	Overdrafts	685	685	685	1,370	1,903	-	1,903	-	1,903	-	-	-	-	-	9,133
8	Loans and Advances	354	82	9	1	4	13	20	16	23	21	27	65	-	-	634
9	Non Performing Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	Fixed Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	131	131
11	Net Inter-branch Transactions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12	Accrued Interest	-	-	-	-	-	-	-	-	-	-	-	-	-	150	150
13	Other Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	365	365
14	Reverse Repos	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15	FRAs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
16	Swaps	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
17	Futures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18	Options	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
19	FX FWD Contracts- BUY	-	523	1,295	-	-	-	-	-	-	-	-	-	-	-	1,818
	Total	2,888	2,275	2,228	5,000	6,966	13	1,923	16	1,926	21	27	65	-	8,356	31,705
	Liabilities and OBS															-
1	Demand Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	7,160	7,160
2	Savings Deposits	131	131	131	263	328	328	328	328	657	-	-	-	-	-	2,626
3	Time Deposits	1,884	72	-	3	-	-	-	954	-	-	-	-	-	-	2,913
4	Other Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5	Balances due to HO/Affiliates/Branches	-	-	-	-	-	-	-	-	-	-	-	-	-	40	40
6	Balance due to other Banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7	Certificate of Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8	Other Borrowings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	Net Inter-branch Transactions	-	-	-	-	-	-	-	-	-	-	-	-	-	3,108	3,108
10	Bills Payable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	Interest Payable	-	-	-	-	-	-	-	-	-	-	-	-	-	30	30
12	Provisions (Others)	-	-	-	-	-	-	-	-	-	-	-	-	-	433	433
13	Capital	-	-	-	-	-	-	-	-	-	-	-	-	-	3,608	3,608
14	Reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	4,199	4,199
15	Retained Earnings + Current year Profits	-	-	-	1,568	-	-	-	-	-	-	-	-	-	-	1,568
16	Subordinate Debts	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
17	Other (Specify)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18	Repos	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
19	FRAs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20	Futures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
21	Swaps	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
22	Options	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Total	2,015	204	131	1,834	328	328	328	1,282	657	-	-	-	-	18,577	25,685
	Gap	873	2,072	2,098	3,166	6,637	(315)	1,595	(1,267)	1,269	21	27	65	-	(10,220)	6,019

	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	72	-	-	-	-	-	-	-	-	-	-	-	-	-	72
Letters of credit/guarantees/acceptances	264	644	607	351	19	57	-	-	-	26	-	-	-	-	2,079
Repo/Bills rediscounted/Swaps/Forward contracts (LKR against Other currencies)	1,266	1,234	3,772	1,031	-	-	-	-	-	-	-	-	-	-	7,303

Sensitivity of Assets and Liabilities
(Currency - USD mio)
As at 31 Dec 2019

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	-	-	-	-	-	-	-	-	-	-	-	-	-	0.0	0.0
2	Deposits with CBSL	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3	Balances due from HO/Affiliates/Branches	-	-	-	-	-	-	-	-	-	-	-	-	-	21.7	21.7
4	Balances due from Other Banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5	Investments	20.0	-	-	-	30.0	-	-	-	-	-	-	-	-	-	50.0
6	Bills of Exchange and Promissory Notes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7	Overdrafts	0.9	0.9	0.9	1.8	2.5		2.5		2.5	-	-	-	-	-	12.0
8	Loans and Advances	13.9	-	-	-	-	-	-	-	-	-	-	-	-	-	13.9
9	Non Performing Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	Fixed Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	Net Inter-branch Transactions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12	Accrued Interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13	Other Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	0.8	0.8
14	Revese Repos	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15	FRAs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
16	Swaps	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
17	Futures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18	Options	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
19	FX FWD Contracts- BUY	7.0	6.8	20.5	5.5	-	-	-	-	-	-	-	-	-	-	39.8
	Total	41.6	7.7	21.4	7.2	32.5	-	2.5	-	2.5	-	-	-	-	22.5	138.3
	Liabilities and OBS															
1	Demand Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	10.9	10.9
2	Savings Deposits	0.1	0.1	0.1	0.1	0.3	0.3	-	0.3	-	-	-	-	-	-	1.2
3	Time Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4	Other Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5	Balances due to HO/Affiliates/Branches	67.50	-	-	-	30.0	-	-	-	-	-	-	-	-	-	97.50
6	Balance due to other Banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7	Certificate of Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8	Other Borrowings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	Net Inter-branch Transactions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	Bills Payable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	Interest Payable	-	-	-	-	-	-	-	-	-	-	-	-	-	1.1	1.1
12	Provisions - income tax	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13	Capital	-	-	-	-	-	-	-	-	-	-	-	-	-	7.2	7.2
14	Reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	2.0	2.0
15	Retained Earnings	-	-	1.4	3.4	-	-	-	-	-	-	-	-	-	-	4.8
16	Subordinate Debts	-	-	-	-	-	-	-	-	-	-	-	-	-	0.7	0.7
17	Other (FCBU(USD) GLLP/PV)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18	Repos	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
19	FRAs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20	Futures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
21	Swaps	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
21	Options	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Total	67.6	0.1	1.4	3.6	30.3	0.3	-	0.3	-	-	-	-	-	21.9	125.3
	Gap	(25.7)	7.9	20.0	3.7	2.2	(0.3)	2.5	(0.3)	2.5	-	-	-	-	0.7	13.0

	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	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Letters of credit/guarantees/acceptances	13.8	9.6	10.3	2.3	2.1	0.8	5.5	-	-	-	-	-	-	-	44.5
Repo/Bills rediscounted/Swaps/Forward contracts (USD against Other currencies)	-	2.8	7.0	-	-	-	-	-	-	-	-	-	-	-	9.8

b) **Equity Position Risk** - Type, carrying value, fair value, realised gains/(losses) and unrealised gains/(losses) for the reporting period and amounts included in capital adequacy calculation.

N/A

c) **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, 2019

Currency (1)	Spot Assets (2)	Spot Liabilities (3)	Spot Net (4)=(2)-(3)	Forward(a) Assets (5)	Forward(a) Liabilities (6)	Forward(a) Net (7)=(5)-(6)	Net Open Position (8)	Net Position in other exchange contracts (9)	Overall exposure in respective foreign currency (10)	Mio Overall exposure in Sri Lankan Rupees (11)
US Dollars	104.9	119.3	(14.3)	41.3	14.0	27.3	13.0	-	13.0	2,349.6
Pound Sterling	0.1	0.1	0.0	-	-	-	0.0	-	0.0	0.2
Euro	8.9	8.5	0.4	0.0	0.0	(0.0)	0.3	-	0.3	69.2
Japanese Yen	2.1	3.6	(1.4)	307.5	302.7	4.8	3.4	-	3.4	5.7
Indian Rupee	-	-	-	-	-	-	-	-	-	-
Australian Dollar	0.2	0.1	0.0	-	-	-	0.0	-	0.0	1.1
Canadian Dollar	0.0	0.0	0.0	-	-	-	0.0	-	0.0	1.5
Other Currencies										
SGD									0.0	0.2
CHF									0.0	0.2
SEK									0.1	1.1
MYR									-	-
HKD									0.0	0.8
THB									0.0	0.1
CNH									0.1	1.5
Total Exposure										2,431
Total capital funds as per the latest audited financial statements (f)										12,002
Total exposure as % of total capital funds as per the latest audited financial statements (should not exceed 30%)										20%

For foreign currency denominated gap analysis, please refer USD table under Liquidity risk.

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 and NSFR.

Ratios:	31-Dec-18	2019			
		Q1	Q2	Q3	Q4
Statutory Liquid Assets Ratio (SLAR)					
- Domestic Banking unit	105%	84%	83%	77%	79%
- Off-Shore Banking unit	99%	86%	171%	72%	81%
Liquidity Coverage Ratio (LCR)					
- All Currency	338%	538%	322%	305%	311%
- Rupee	725%	828%	569%	432%	389%
Net Stable Funding Ratio (NSFR)	N/A	164%	131%	120%	140%
Net loans to total assets	29%	35%	32%	29%	29%
Loans to customer deposits	78%	73%	84%	76%	88%
Liquid assets to short term liabilities	141%	130%	117%	115%	118%
Commitments to Liquid assets	35%	52%	40%	38%	45%

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 2019

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	7,023	115	85	60	60	46	46	240
3	Balances due from Head Office, Affiliates and Own branches	-	-	-	-	-	-	-	-
4	Balances due from Other Banks	750	-	-	-	-	-	-	-
5	Investments (Net of provisions)	1,100	982	239	2,787	842	5,059	-	2
6	Bills of Exchange	-	-	-	-	-	-	-	-
7	Overdraft	685	685	685	685	685	1,903	1,903	1,903
8	Loans and Advances	354	82	9	-	1	18	36	135
9	NPLs	-	-	-	-	-	-	-	-
10	Net Inter-Branch Transactions	-	-	-	-	-	-	-	-
11	Other Assets	34	-	-	-	-	274	-	57
12	Lines of credit committed from institutions	-	-	-	-	-	-	-	-
13	Reverse Repo	-	-	-	-	-	-	-	-
14	Accrued Interest	6	113	31	-	-	-	-	-
15	Fixed Assets	-	-	-	-	-	-	-	131
16	Interbranch receivables	-	-	-	-	-	-	-	-
17	FX FWD Contracts- BUY	-	523	1,295	-	-	-	-	-
	Total (a)	9,984	2,505	2,343	3,532	1,587	7,300	1,985	2,468
B	Outflows								
1	Demand Deposits	1,432	1,432	1,074	716	716	-	-	1,790
2	Savings Deposits	131	131	131	131	131	657	657	657
3	Balances due to Head Office/Affiliates/Own Branches	40	-	-	-	-	-	-	-
4	Balances due from Other Banks	-	-	-	-	-	-	-	-
5	Time and Other Deposits	1,884	72	-	3	-	-	-	954
6	Certificates of Deposits, Borrowings & Bonds	-	-	-	-	-	-	-	-
7	Net Inter-branch Transactions	1,875	-	-	-	-	1,232	-	-
8	Bills Payable	-	-	-	-	-	-	-	-
9	Interest Payable	30	-	-	-	-	-	-	-
10	Provisions other than for loan losses and depreciation in the value of investment portfolio	-	-	-	-	-	-	-	-
11	Other Liabilities	39	80	-	6	133	-	-	174
12	Lines of credit committed to institutions	-	-	-	-	-	-	-	-
13	Unutilized portion of Overdraft, Loans and Advances	8	6	5	5	5	14	14	15
14	Letters of Credit/ Guarantees/Acceptances	364	644	607	361	-	76	-	26
15	Repo/Bills Rediscounted/Swaps/Forward contracts	1,266	1,234	3,772	-	1,031	-	-	-
16	Capital & Reserves	-	-	-	-	-	-	-	7,806
17	Retained Earnings + Current year profits	-	-	-	-	1,568	-	-	-
	Total (b)	7,069	3,600	5,590	1,223	3,584	1,980	671	11,422
	Gap = (a) - (b)	2,915	(1,094)	(3,246)	2,309	(1,997)	5,321	1,314	(8,955)
	Cumulative Gap	2,915	1,820	(1,428)	883	(1,114)	4,207	5,521	(3,434)
	Cumulative Liabilities	7,069	10,669	16,259	17,482	21,066	23,046	23,717	35,139
	Cumulative Gap as a % of Cumulative Liabilities	41%	17%	-9%	5%	-5%	18%	23%	-10%

Maturities of Assets and Liabilities (MAL)
(Currency - USD mio)
As at 31 Dec 2019

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	21.7	-	-	-	-	-	-	-
4	Balances due from Other Banks	-	-	-	-	-	-	-	-
5	Investments (Net of provisions)	20.0	-	-	-	-	30.0	-	-
6	Bills of Exchange	-	-	-	-	-	-	-	-
7	Overdraft	0.9	0.9	0.9	0.9	0.9	2.5	2.5	2.5
8	Loans and Advances	13.9	-	-	-	-	-	-	-
9	NPLs	-	-	-	-	-	-	-	-
10	Net Inter-Branch Transactions	-	-	-	-	-	-	-	-
11	Other Assets	0.8	-	-	-	-	-	-	-
12	Lines of credit committed from institutions	-	-	-	-	-	-	-	-
13	Other	-	-	-	-	-	-	-	-
14	FX FWO Contracts- BUY	7.0	6.8	20.5	5.5	-	-	-	-
	Total (a)	64.4	7.7	21.4	6.4	0.9	32.5	2.5	2.5
B	Outflows								
1	Demand Deposits	2.2	2.2	1.6	1.1	1.1	-	-	2.7
2	Savings Deposits	0	0	0	0	0	0	0	0
3	Balances due to Head Office/Affiliates/Own Branches	67.5	-	-	-	-	30.0	-	-
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	1.1	-	-	-	-	-	-	-
10	Provisions other than for loan losses and depreciation in the value of investment portfolio	-	-	-	-	-	-	-	-
11	Other Liabilities	0.7	-	-	-	-	-	-	-
12	Lines of credit committed to institutions	-	-	-	-	-	-	-	-
13	Unutilized portion of Overdraft, Loans and Advances	-	-	-	-	-	-	-	-
14	Letters of Credit/ Guarantees/Acceptances	13.8	9.6	10.3	2.3	-	2.9	-	-
15	Repo/Bills Rediscounted/Swaps/Forward contracts	-	2.8	7.0	-	-	-	-	-
16	Capital & Reserves	-	-	-	-	-	-	-	9.2
17	Retained Earnings +current year profits	-	-	1.4	-	3.4	-	-	-
	Total (b)	85.3	14.7	20.4	3.5	4.6	33.2	0.3	12.2
	Gap = (a) - (b)	(20.9)	(7.0)	1.0	2.9	(3.7)	(0.7)	2.2	(9.7)
	Cumulative Gap	(20.9)	(27.9)	(26.9)	(23.9)	(27.6)	(28.3)	(26.1)	(35.9)
	Cumulative Liabilities	85.3	100.0	120.4	123.8	128.4	161.6	161.9	174.1
	Cumulative Gap as a % of Cumulative Liabilities	-25%	-28%	-22%	-19%	-22%	-18%	-16%	-21%

c) Measurement tools/metrics that assess the structure of balance sheet, as well as metrics that project cash flows and future liquidity positions, taking into account off-balance sheet risks which specific to the Branch.

At the country level, DB Colombo ALCO expresses its tolerance for liquidity risk by reviewing and approving the annual funding plan and liquidity risk drivers (LRDs) for effective liquidity stress testing and by setting and approving liquidity risk limits, in line with the tolerance/risk appetite applied and approved by LRM on an annual basis or more frequently if required. DB Colombo ALCO acknowledges the stress testing results, which is performed on a daily basis and this assesses the short term liquidity risk tolerance. This is reported to the ALCO at its regular meetings. The Funding Matrix addresses the long-term liquidity risk of the DB Colombo. Funding Matrices for all major currencies shall be prepared on at least monthly basis and reported to the ALCO.

Funding Matrix (FM) is constructed to determine and analyse the structural funding profile on the longer end. For this purpose, all funding relevant items are analysed and bucketed according to their contractual or modelled maturity over a time horizon of above one year out to year 10. From the cumulative term profile, the excess or shortfall of term liabilities and assets in each time bucket can be determined, serving as input for the discussion of potential action to fund the balance sheet.

The FM is compiled on a monthly basis and is distributed by Liquidity and Treasury Reporting and Analysis (LTRA) to relevant stakeholders.

d) Key metrics that management monitors liquidity, including, but not limited to, concentration limits and sources of funding (both products and counterparties), liquidity exposures and funding needs at the level of individual legal entities, foreign branches and subsidiaries, taking into account legal, regulatory and operational limitations on the transferability of liquidity.

Monitoring of Liquidity Risk Limits and Concentrations

Several tools and metrics are used to measure and manage liquidity and funding risk at DB Colombo level.

- **The Liquidity Coverage Ratio (LCR):** The Liquidity Coverage Ratio is a pre-defined regulatory stress metric. CBSL's Bank Supervision Department implemented Basel III liquidity standards on liquidity coverage ratio for licensed commercial banks and licensed specialized banks effective from 1 April 2015. Banks shall comply with the minimum requirement of 60%, and the minimum requirement will be enhanced annually by 10% from 01 January 2016 to reach 100% by 1 January 2019 for all currency and LKR. Also CBSL expects banks to closely monitor LCR by significant currency.
  LCR is reported to ALCO by local Finance on an on-going and monthly basis for regular monitoring. LCR is also reported to ALCO via weekly Liquidity Dashboard (LDB) to regular monitoring and compliance. Detailed trend analyses and LCR forecasts based on projected cash flows are discussed on at least quarterly basis at ALCO by Treasury, to ensure Branch complies with regulatory LCR requirements where Branch has sufficient liquid funds to fulfil its payment obligations at all times.

- **Intra-group funding** lines and utilisation: DB Colombo obtains funding lines from DB Group when required. Intra-group funding is governed by the Credit Risk Management ("CRM") cross border funding limit process and daily Intra-group utilization report is distributed by LTRA to Treasury, LRM, and CRM via email for monitoring purpose.

- **Local liquidity stress testing:** local stress testing for liquidity risk is performed on a daily basis and assesses the short term liquidity risk tolerance of DB Colombo. The stress testing gives the analysis of the DB Colombo's ability to withstand predefined stress events.

- **Liability Diversification Target:** External liabilities are raised through Deutsche Bank AG, Colombo Branch. The ALCO approves the funding plan on an annual basis. Large fund (Top 10 depositors) providers: max. 30% for warning level, 35% for trigger level of the balance sheet Compliance with the threshold is monitored via the ALCO. In case the above concentration ratio is exceeded, ALCO will review whether funding alternatives are required.

- **Net Stable Funding Ratio (NSFR):** Furthermore Central Bank of Sri Lanka issuing Banking Act Direction 08 of 2018 on 21 Nov 2018, implemented Net Stable Funding Ratio (NSFR) under Basel III liquidity standards for licensed commercial banks (LCBs) and licensed specialized banks (LSBs) effective 01 January 2019. Banks are expected to comply with the minimum regulatory requirement of 90% effective 01 Jan 2019 and the minimum will be increased to 100% effective 01 July 2019. For monitoring purposes, NSFR results will be reported by local Finance to ALCO and same will be reported via regular Liquidity Dashboard reports and ALCO meeting materials from 2019 onwards to ensure ongoing compliance.

The DB AG Colombo ALCO receives status reports on limit utilisation, stress testing, funding diversification and other liquidity risk indicators in the form of a Liquidity Dashboard. Warning and trigger levels are defined for selected risk indicators to ensure timely and appropriate action is taken in line with the Contingency Funding Plan.

Key liquidity ratios and figures are monitored in the ALCO report on a regular basis and form basis of the quarterly Risk Capital Profile (RCP) report.

Liquidity risk concentrations can be found along products, regions, currencies, tenors and clients, and may arise from DB Colombo's potential inability to meet all payment obligations when due, or to only meet these obligations at excessive costs.

Treasury may decide to temporarily reduce limits in the event of contingency situations to reduce potential liquidity risk. Additional local contingency measures form part of a local contingency plan.

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 Branch due to such failures during the reporting period. Two OR Loss events were reported during the period with total Gross Loss of EUR 16.03k.

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 Branch and vendors. Payments are based on the scope of work delivered.

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

Deutsche Bank Colombo Branch 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 and Investment Bank (CIB) is allowed to run market risk. The majority of the Group interest rate risk arising from non-trading asset and liability positions, has been transferred through internal transactions to the Treasury, subject to banking book value at risk limits. Treasury hedges the transferred net banking book risk with CIB trading books. CIB interest rate risk is managed on the basis of trading book VaR as reflected in trading portfolio figures.

However, there may be small residual FX or interest rate risk that remains on overnight basis while covering and facilitating client flows.

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