DEUTSCHE BANK AG – COLOMBO BRANCH

FINANCIAL STATEMENTS

31 DECEMBER 2020

Building a better working world

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INDEPENDENT AUDITORS' REPORT
TO THE MANAGEMENT OF DEUTSCHE BANK AG - SRI LANKA BRANCH

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Deutsche Bank AG - Sri Lanka Branch ("The Branch"), which comprise the statement of financial position as at 31 December 2020, and the income statement, statement of profit or loss and other comprehensive income, statement of changes in equity and, cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Branch as at 31 December 2020 and of its financial performance and its cash flows for the period 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.

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 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 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.

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Branch internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Branch ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Branch to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Other Matter

The financial statements of Deutsche Bank AG – Sri Lanka Branch for the year ended 31 December 2019, were audited by another auditor who expressed an unmodified opinion on those statements on 31 March 2020.

Report on other legal and regulatory requirements

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

30 March 2021
Colombo

INCOME STATEMENT

Year ended 31 December 2020

	Note	2020 Rs.	2019 Rs.
Gross income	6	4,189,131,365	3,867,234,503
Interest income		3,115,427,648	2,876,692,111
Interest expenses		663,048,952	756,311,156
Net interest income	7	2,452,378,697	2,120,380,955
Fee and commission income		383,585,441	353,721,773
Fee and commission expenses		43,775,281	23,479,438
Net fee and commission income	8	339,810,160	330,242,335
Net gain from trading	9	571,009,006	601,140,684
Net other operating income	10	119,109,270	35,679,935
Total operating income		3,482,307,133	3,087,443,909
Impairment (charge)/reversal	11	(154,783,051)	(44,848,549)
Net operating income		3,327,524,082	3,042,595,360
Operating expenses			
Personnel expenses	12	429,569,558	441,929,640
Depreciation	25	84,360,249	69,784,915
Other expenses	13	1,382,592,066	1,351,205,769
Operating profit before Value Added Tax (VAT) & Nation Building Tax (NBT) on financial services		1,431,002,209	1,179,675,036
Value Added Tax (VAT) on financial services		236,958,619	210,647,889
Nation Building Tax (NBT) on financial services		-	26,045,233
Operating profit after Value Added Tax (VAT) & Nation Building Tax (NBT) on financial services		1,194,043,590	942,981,914
Income tax (reversal)/expense	14	265,672,768	(284,955,995)
Profit for the year		928,370,822	1,227,937,909

The accounting policies and notes on pages 08 through 83 form an integral part of the financial statements.

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STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2020

	2020 Rs.	2019 Rs.
Profit for the year	928,370,822	1,227,937,909
Items that will be reclassified to income statement		
Net gains/(losses) on investments in debt instruments measured at fair value through other comprehensive income	(12,204,895)	-
Impairment charge/(reversal) relating Sri Lanka Development Bonds (Note 24.c.)	(2,331,893)	(30,175,460)
Less: Tax expense relating to items that will be reclassified to income statement (Note 14.2)	3,417,371	-
	(11,119,417)	(30,175,460)
Items that will not be reclassified to income statement		
(Loss)/ Gains on translating the Financial Statements of FCBU	54,208,612	(15,972,352)
Change in fair value on investments in equity instruments designated at fair value through other comprehensive income	-	40,738,984
Related tax (Note 14.2)	-	(11,406,916)
Re-measurement of post-employment benefit obligations (Note 32.b)	(8,009,174)	17,264,106
Related tax (Note 14.2)	2,242,569	(4,833,950)
	48,442,006	25,789,872
Other comprehensive income for the year, net of taxes	37,322,589	(4,385,588)
Total comprehensive income for the year, net of taxes	965,693,411	1,223,552,321

The accounting policies and notes on pages 08 through 83 form an integral part of the financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Note	2020 Rs.	2019 Rs.
Assets			
Cash and cash equivalents	15	663,785,519	115,867,718
Balances with Central Bank	16	4,636,851,418	7,676,645,448
Placements with banks	17	-	751,258,420
Placements with branches	18	11,115,030,876	3,875,053,739
Derivative financial instruments	19	79,241,542	37,878,127
Group balances receivables	20	3,701,006,432	1,706,880,210
Financial assets measured at fair value through profit or loss (FVTPL)	21	8,640,539,060	6,799,440,126
Financial assets at amortized cost - Loans and advances to customers	22	19,302,686,784	14,639,695,090
Financial assets at amortized cost - Debt and other instruments	23	9,274,535,555	5,504,241,526
Financial assets measured at fair value through other comprehensive income (FVOCI)	24	5,466,408,057	8,158,579,294
Property, plant and equipment	25	122,190,726	172,235,260
Deferred tax assets	26	91,824,228	-
Other assets	27	606,271,977	665,587,186
Total assets		63,700,372,175	50,103,362,144
Liabilities			
Due to Banks	28	115,573,425	-
Due to branches	29	15,323,403,157	17,816,192,003
Derivative financial instruments	30	101,050,944	40,243,365
Financial liabilities at amortized cost - Due to depositors	31	30,523,133,659	16,714,490,579
Employee Benefit	32	80,922,411	65,170,001
Current tax liabilities	33	250,041,315	138,763,183
Deferred tax liabilities	26	-	28,956,365
Other liabilities	34	243,036,449	217,334,264
Group Balance Payable	35	2,297,686,221	3,157,722,201
Total liabilities		48,934,847,581	38,178,871,961
Equity			
Assigned capital	36	4,410,461,270	4,410,461,270
Statutory reserve fund	37	749,324,125	702,905,584
Retained earnings	38	3,181,608,529	2,305,422,853
Other reserves	39	6,424,130,670	4,505,700,476
Total shareholders' equity		14,765,524,594	11,924,490,183
Total equity and liabilities		63,700,372,175	50,103,362,144
Contingent liabilities and commitments	40	38,043,089,347	28,435,995,682

The Management is responsible for the preparation and presentation of these Financial Statements.
Approved and signed for and on behalf of the Management :

Chief Country Officer and GTB Head Sri Lanka
Vikas Arora

Head of Finance
Somasuriyasingham Janarthanan

The accounting policies and notes on pages 08 through 83 form an integral part of the financial statements.

30 March 2021
Colombo

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STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2020

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	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 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 FVTOCI	-	-	40,738,984	-	-	-	-	40,738,984
Impairment of FVTOCI Investments	-	-	(30,175,460)	-	-	-	-	(30,175,460)
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 statements of the FCBU	-	-	-	-	(11,236,982)	(4,735,370)	-	(15,972,352)
Total comprehensive income for the year	**-**	**-**	**(843,392)**	**1,240,368,065**	**(11,236,982)**	**(4,735,370)**	**-**	**1,223,552,321**
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	(11,326,094)	2,305,422,853	512,397,424	261,416,239	3,743,212,907	11,924,490,183
Balance as of 1st January 2020	4,410,461,270	702,905,584	(11,326,094)	2,305,422,853	512,397,424	261,416,239	3,743,212,907	11,924,490,183
Total comprehensive income for the year								
Profit for the year (net of tax)	-	-	-	928,370,822	-	-	-	928,370,822
Changes in fair value of FVTOCI	-	-	(12,204,895)	-	-	-	-	(12,204,895)
Impairment of FVTOCI Investments	-	-	(2,331,893)	-	-	-	-	(2,331,893)
Actuarial gain in defined benefits plan	-	-	-	(8,009,174)	-	-	-	(8,009,174)
Tax on other comprehensive income	-	-	3,417,371	2,242,569	-	-	-	5,659,939
(Loss)/Gains translating the financial statements of the FCBU	-	-	-	-	27,911,214	26,297,398	-	54,208,612
Total comprehensive income for the year	-	-	(11,119,417)	922,604,217	27,911,214	26,297,398	-	965,693,411
Transactions with equity holders, recognized directly in equity								
Transfers to reserves during the year	-	46,418,541	-	(46,418,541)	-	-	-	-
Unremittable HO Expenses capitalization							1,875,341,000	1,875,341,000
Total transactions with equity holders	-	46,418,541	-	(46,418,541)	-	-	1,875,341,000	1,875,341,000
Balance as at 31st December 2020	4,410,461,270	749,324,125	(22,445,511)	3,181,608,529	540,308,638	287,713,637	5,618,553,907	14,765,524,594

The accounting policies and notes on pages 08 through 83 form an integral part of the financial statements.

STATEMENT CASH FLOW

Year ended 31 December 2020

	Note	2020 Rs.	2019 Rs.
Cash Flows from Operating Activities			
Profit before taxation		1,194,043,590	942,981,914
Adjustment for:			
Non-cash items included in profits before tax	46	1,173,648,062	1,149,816,426
Change in operating assets	47	(13,049,181,278)	(8,555,011,630)
Change in operating liabilities	48	11,471,531,593	7,112,229,531
Dividend income		(3,200,000)	(3,046,550)
Net unrealised gain/(loss) from translation of Financial statements of Foreign Operation		54,208,612	(15,972,352)
Cash generated from operating activities		841,050,579	630,997,339
Contribution paid to defined benefit plans		(4,850,564)	(48,803,762)
Income tax paid		(257,166,393)	(373,787,314)
Net cash generated from operating activities		579,033,623	208,406,263
Cash Flows from Investing Activities			
Purchase of Property, Plant and Equipment		(34,315,822)	(163,247,794)
Dividend received from investment		3,200,000	3,046,550
Net cash used in investing activities		(31,115,822)	(160,201,244)
Cash Flows from Financing Activities			
Profit transfer to head office		-	-
Net cash used in financing activities		-	-
Net decrease in Cash & Cash Equivalents		547,917,801	48,205,019
Cash and Cash Equivalents at the beginning of the year		115,867,718	67,662,700
Cash and Cash Equivalents at the end of the year	15	663,785,519	115,867,718

The accounting policies and notes on pages 08 through 83 form an integral part of the financial statements.

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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 principal 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 continue 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 2020 is 58 while the total headcount stood at 86. (2019 – 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 Standards 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 30 March 2021.

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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.

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. In this assessment the management has considered the potential downsides that the Covid-19 pandemic could bring to business operations of the Branch.

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	30

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) and 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 confirm with the current year's presentation in order to provide better presentation.

Amendments for presentation and classification in the financial statements for comparative information to ensure the comparability with the current year, are more fully described under Note 52.

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 and disclosure of contingent assets and liabilities at the balance sheet date. 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 especially in relation to the COVID-19 crisis.

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.

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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 34 to all periods presented in these financial statements

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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.

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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 with 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.

As per notice dated April 08, 2020 issued by the Inland Revenue Department on "Implementation of Proposed Changes to the Inland Revenue Act No. 24 of 2017", effective from January 01, 2020;

- Corporate Income Tax rate was revised from 28% to 24%. However, such revisions were not considered in computing the income tax liabilities, pending legal enactment and formal amendments to the Inland Revenue Act.

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 an 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 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.

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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

Branch classifies financial assets in line with the classification and measurement requirements of SLFRS 9, where financial assets are classified based on both the business model used for managing the financial assets and the contractual cash flow characteristics of the financial asset (known as Solely Payments of Principal and Interest or "SPPI"). There are three business models available:

- Hold to Collect - Financial assets held with the objective to collect contractual cash flows. They are subsequently measured at amortized cost and are recorded in multiple lines on the Branch's balance sheet.
- Hold to Collect and Sell - Financial assets held with the objective of both collecting contractual cash flows and selling financial assets. They are recorded as Financial assets at Fair Value through Other Comprehensive Income on the Branch's balance sheet.
- Other - Financial assets that do not meet the criteria of either "Hold to Collect" or "Hold to Collect and Sell". They are recorded as Financial Assets at Fair Value through Profit or Loss on the Branch's balance sheet

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The assessment of business model requires judgment based on facts and circumstances upon initial recognition. As part of this assessment, the Branch considers quantitative factors (e.g., the expected frequency and volume of sales) and qualitative factors such as how the performance of the business model and the financial assets held within that business model are evaluated and reported to the Branch's key management personnel. In addition to taking into consideration the risks that affect the performance of the business model and the financial assets held within that business model, in particular, the way in which those market and credit risks are managed; and how managers of the business are compensated (e.g., whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected). This assessment results in an asset being classified in either a Hold to Collect, Hold to Collect and Sell or Other business model.

If the Branch holds a financial asset either in a Hold to Collect or a Hold to Collect and Sell business model, then an assessment at initial recognition to determine whether the contractual cash flows of the financial asset are Solely Payments of Principal and Interest on the principal amount outstanding at initial recognition is required to determine the business model classification. Contractual cash flows, that are SPPI on the principal amount outstanding, are consistent with a basic lending arrangement. Interest in a basic lending arrangement is consideration for the time value of money and the credit risk associated with the principal amount outstanding during a particular period of time. It can also include consideration for other basic lending risks (e.g., liquidity risk) and costs (e.g., administrative costs) associated with holding the financial asset for a particular period of time, and a profit margin that is consistent with a basic lending arrangement.

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. The financial asset is assessed for impairment under the SLFRS 9 expected credit loss model, where provisions are recognized based on expectations of potential credit losses. Financial assets measured at amortized cost are recognized on a settlement date basis.

Financial Assets at Amortized Cost include predominately Loans at amortized cost, Central bank funds, Debt securities and certain receivables presented in Other Assets.

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 recorded through profit or loss are recognized based on expectations of potential credit losses.. 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.

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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 Branch commits to purchase or sell the asset.

Trading assets – Financial assets are classified as held for trading if they have been originated, acquired or incurred principally for the purpose of selling or repurchasing them in the near term, or they form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Trading assets include debt securities and derivatives held for trading purposes.

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 in those rare circumstances when the Branch 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.

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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. When a modification results in derecognition the original instrument is derecognized and the new instrument recognized at fair value.

Non credit 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., 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 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.

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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).

The Branch'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.

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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 focuses 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:

– 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 high credit risk when their credit risk rating is equivalent to the globally understood definition of "investment grade'. 12-month ECL & Life time 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 in 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.
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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.

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- 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 on whether the financial asset should be derecognized. ECL is 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.

The Branch makes use of the ECL methodology and related risk models computation algorithms developed by DB Group to account for the ECL provision in the Branch's financials.

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In order to determine the appropriateness of the Group credit model to the local market conditions throughout 2020, the Branch completed a detailed assessment of the macro-economic inputs (such as GDP growth, inflation, interest rates, exchange rates and unemployment) used in our models, versus the respective economic analyses and forecasts published by the Central Bank of Sri Lanka. The development of both sets of indicators were found to be in line, and hence the Group's models were deemed adequate. The development of the ECL on the Sri Lanka Credit portfolio was also reviewed specifically with regard to the impact of the COVID 19 impact, which was addressed via an additional management overlay on a quarterly basis.

The Branch also forecasted ECL provision values in Annual ICAAP document based on historical pattern and considering the forward-looking macroeconomic scenarios with the objective of capturing the impact of COVID-19, and uncertainties and volatilities in future outlook.

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.

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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, extrapolation and interpolation techniques must be applied. Where no market data are available for a particular instrument, 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, 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

Trade date profit is recognised if the fair value of the financial instrument measured at fair value through profit or loss is obtained from a quoted market price in an active market, or otherwise evidenced by comparison to other observable current market transactions, or based on a valuation technique incorporating observable market data. 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.

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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.

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 Subsequent costs

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

3.4.3 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 member of the Institute of Valuers of Sri Lanka (IVSL) who shall be:
   i. A Fellow Member; or
   ii. A Professional Associate Member with 5 years of experience in such grade of membership. For the purpose of determining number of years of experience in the grade of Professional Associate Membership, the transitional provisions stated in Section 24 of the IVSL amendment Act. No. 9 of 2019, shall be applicable.

b) A member of the Royal Institution of Chartered Surveyors of the United Kingdom (RICS) who shall be:
   i. A Fellow Member of RICS and a member of IVSL; or
   ii. Other members of RICS who have passed the final examination of RICS in the General Practice Division with 05 years of experience in such grade of membership and a member of IVSL.

c) Valuers selected for the panel of valuers of the licensed banks as per the qualifications set out in a) and b) above shall acquire Continuous Professional Development as approved/ recommended by the respective professional body

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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.

With respect to 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

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.

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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 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.

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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 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.

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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.

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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.

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.

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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.

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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, 2020.

- 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 2020.

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.

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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 to manage risks and other issues associated with their import, 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 (IFRS).

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 AND AMENDED ACCOUNTING STANDARDS THAT ARE ISSUED, BUT NOT YET EFFECTIVE AS AT REPORTING DATE

- SLFRS 17 – Insurance Contracts
- Amendments to SLFRS 9, LKAS 39, SLFRS 7, SLFRS 4 and SLFRS 16 – Interest Rate Benchmark Reform (Phase 1 & 2)
- Amendments to SLFRS 16 – Covid – 19 Related Rent Concessions

None of the new or amended pronouncements are expected to have a material impact on the financial statements of the Branch.

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5. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

There are no changes in Accounting Policies in the Financial Year 2020.

6. GROSS INCOME

	2020 Rs.	2019 Rs.
Interest income	3,115,427,648	2,876,692,111
Fee and commission income	383,585,441	353,721,773
Net gain from trading	571,009,006	601,140,684
Net other operating income	119,109,270	35,679,935
	4,189,131,365	3,867,234,503

7. NET INTEREST INCOME

	2020 Rs.	2019 Rs.
Interest income		
Placements with banks	467,768,282	439,431,171
Financial assets measured at fair value through profit or loss (FVTPL)	595,529,269	504,846,909
Financial assets at amortized cost - Loans and advances to customers	1,122,241,314	1,076,868,009
Financial assets at amortized cost - Debt and other instruments	560,198,019	228,208,548
Financial assets measured at fair value through other comprehensive income (FVOCI)	369,690,763	627,337,474
Total interest income	3,115,427,648	2,876,692,111
Interest expenses		
Due to banks	354,828,552	383,982,298
Financial liabilities at amortized cost - Due to depositors	308,220,400	372,328,858
Total interest expenses	663,048,952	756,311,156
Net interest income	2,452,378,697	2,120,380,955

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	19,302,686,784	14,639,695,090
'Financial assets at amortized cost - Debt and other instruments	9,274,535,555	5,504,241,526
Financial assets measured at fair value through profit or loss (FVTPL)	8,640,539,060	6,799,440,126
Financial assets measured at fair value through other comprehensive income (FVOCI)	5,466,408,057	8,158,579,294
Total	42,684,169,457	35,101,956,036
Financial liabilities at amortized cost - Due to depositors	30,523,133,659	16,714,490,579

7.a Net interest income from Sri Lanka Government securities

Interest Income	1,525,418,052	1,360,392,931
Net interest income from Sri Lanka Government Securities	1,525,418,052	1,360,392,931

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8. NET FEE AND COMMISSION INCOME

	2020 Rs.	2019 Rs.
Fee and commission income (Note 8.1)	383,585,441	353,721,773
Fee and commission expenses	43,775,281	23,479,438
Net fee and commission income	339,810,160	330,242,335

8.1 Fee and commission income

Trade and remittances	92,181,956	80,559,407
Guarantees	32,645,814	34,728,253
Other banking services	258,757,672	238,434,113
	383,585,441	353,721,773

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 a 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 providing 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 & Loss when the identified performance obligation has been satisfied.

9. NET GAIN FROM TRADING

	2020 Rs.	2019 Rs.
Foreign Exchange		
From Banks	456,922,461	509,961,504
From customers	20,002,551	36,679,684
Net unrealized forward (losses)/gains	(19,444,569)	(4,340,612)
Fixed income securities	140,811,794	53,376,458
Net gain/(loss) from Financial instruments at fair value through profit and loss	(27,283,232)	5,463,650
Total	571,009,006	601,140,684

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10. NET OTHER OPERATING INCOME

	2020 Rs.	2019 Rs.
Dividend income	3,200,000	3,046,550
Intergroup recoveries (Note 10.a)	101,094,841	21,696,209
Cost recoveries from customers	14,814,429	10,937,176
Total	119,109,270	35,679,935

10.a Intergroup recoveries

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

11. IMPAIRMENT CHARGES

	2020 Rs.	2019 Rs.
Financial assets at amortised cost - Loans and advances (Note22(c))		
Stage 1	921,586	(1,470,534)
Stage 2	146,218	(204,840)
Stage 3		-
Financial assets at amortized cost – debt instruments (Note 23(a))		
Stage 1	57,501,353	77,956,990
Stage 2	95,418,746	-
Stage 3		-
Financial assets measured at fair value through other comprehensive income (Note 24(c))		
Stage 1	(2,331,893)	(30,175,460)
Stage 2	-	-
Stage 3		-
Contingent liabilities & commitments (Note 34.2 (b))		
Stage 1	653,135	(1,440,333)
Stage 2	-	(45,844)
Stage 3	-	-
Balances with banks (Note 16.1 & Note 17.1)	481,033	24,975
Provision for country risk (Note 34.3)	1,992,872	203,594
Total Impairment charges	154,783,051	44,848,549

12. PERSONNEL EXPENSES

	2020 Rs.	2019 Rs.
Salary and bonus	167,195,719	203,474,051
Contributions to defined contribution plans	35,770,849	50,418,669
Provision for defined benefit obligations (Note 32)	12,593,800	17,248,808
Others/Other allowances and Staff related expenses	214,009,191	170,788,112
Total personnel expenses	429,569,558	441,929,640

13. OTHER EXPENSES

	2020 Rs.	2019 Rs.
Auditors' remunerations		
Audit fees and expenses	1,190,000	1,190,025
Audit related fees and expenses	650,000	650,033
Non-audit fees to auditors	2,521,066	1,578,047
Professional and legal expenses (Note 13.1)	3,870,135	6,504,314
Inter-entity Expenses (Note 13.2)		
Head Office related expenses	240,273,367	182,733,691
Inter-entity other expenses	815,113,017	908,393,686
Office administration and establishment expenses	305,727,534	322,971,616
Provision/ Reversal for penalty	-	(209,171,297)
Normal NBT related to Non Banking	-	3,515,691
Debt Repayment Levy (Note 13.3)	2,761,255	117,396,841
Crop Insurance Levy	7,695,236	11,787,485
Finance expense on lease liability	2,790,456	3,655,637
Total Other expenses	1,382,592,066	1,351,205,769

13.1 Professional and legal expenses

Professional fees includes the fees paid to 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 Consulting firms. The Branch has employed two legal firms on pending litigations.

13.2 Inter-entity Expenses

The Branch receives Regional Head Office expenses from the Asia Pacific Head Office, which provides infrastructure support for the entire Asia-Pacific Region. The Branch also receives a share of Global Overheads which are costs relating to centralized steering, co-ordination and monitoring functions performed for Deutsche Bank Group as a whole.

In addition, Deutsche Bank Colombo Branch receives other Inter-Entity expenses for services which are directly and specifically related to Local Franchise activities and transactions. This includes charges for services from Sales, Coverage, and Structuring teams, Regional / Global Management and Support functions, Audit, Human Resources as well as Technology and Operations.

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

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 2020.

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14. TAX EXPENSES

14.1 Amount recognised in profit or loss

	2020 Rs.	2019 Rs.
Current tax expense		
Current year	373,046,199	218,734,440
(Over)/under provision for prior years	7,747,223	(292,205,750)
Prior year income tax refund claim	-	(249,024,310)
	380,793,422	(322,495,620)
Deferred tax expense		
Deferred tax asset originated during the year (Note 26.1)	(70,695,518)	9,667,701
Deferred tax liability originated during the year (Note 26.2)	(44,425,136)	27,871,924
	(115,120,654)	37,539,625
Total tax expenses	265,672,768	(284,955,995)

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.

14.2 Amount recognised in Other Comprehensive Income (OCI)

	2020 Rs.	2019 Rs.
Tax on items that will not be reclassified to profit or loss		
Remeasurement of Defined Benefit Liability (Note 26.1)	(2,242,569)	4,833,950
Tax on items that are or may be reclassified subsequently to profit or loss		
Movement in fair value reserve (FVOCI debt instruments) (Note 26.1)	(3,417,371)	(11,406,916)
	(5,659,939)	(6,572,966)

14.3 Reconciliation of effective tax rate with income tax rate

	2020 Rs.	2019 Rs.
Income tax for the year (Accounting profit@ applicable tax rate)	334,332,205	264,034,936
Add: Tax effect of expenses that are not deductible for tax purposes	145,294,998	332,692,636
(Less): Tax effect of expenses that are deductible for tax purposes	(106,581,004)	(377,993,132)
Current tax expense	373,046,199	218,734,440

14.4 New amendments to Income Tax Law Announced by the Government

The Cabinet has approved the reduction of the corporate income tax rate to 24% from 28% with effect from 1st January 2020. The said amendment is yet to be approved by the Parliament and cannot be considered as a legislation. As such Branch continued using 28% in calculation the deferred tax assets as at 31st December 2020 as this amendment is not substantially enacted by the end of the reporting period.

If the above amendment was considered, the impact to the Income Statement for the year ended December 31, 2020 would be an income tax reversal of Rs. 40.983 Mn. (reversal of Rs. 53.292 Mn. from income tax payable and a charge of Rs. 12.309 Mn under Deferred tax expense.) Further, the impact to the Statement of Profit or Loss and Other Comprehensive Income would have been a Deferred tax reversal of Rs. 0.808 Mn.

15. CASH AND CASH EQUIVALENTS

	2020 Rs.	2019 Rs.
Cash in hand	72,088,741	48,170,515
Balances with banks	591,696,778	67,697,203
Total	663,785,519	115,867,718

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

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16. BALANCES WITH CENTRAL BANKS

	2020 Rs.	2019 Rs.
Statutory balance with Central Banks		
Central Bank of Sri Lanka	357,001,840	896,645,448
Non-statutory balances with Central Banks		
Central Bank of Sri Lanka	4,280,529,120	6,780,000,000
Total balances with Central Banks	4,637,530,960	7,676,645,448
Provision for impairment (Note 16.1)	(679,541)	-
	4,636,851,418	7,676,645,448

16.1 Impairment provision for CBSL balances

	2020 Rs.	2019 Rs.
Opening balance at 01st January	-	-
Charge to income statement	679,541	-
Closing balance at 31st December	679,541	-

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

16.2 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-denominated deposit liabilities is prescribed as a percentage of the balance of these liabilities. The percentage varies from time to time. The applicable minimum rate was 2.00% with effect from 1 July 2020 (minimum rate was 5.00% up to 29 February 2020 & 4% up to 30 June 2020). The Central Bank of Sri Lanka had 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 held in the Foreign Currency Banking Unit and foreign currency deposit liabilities held in the Domestic Banking Unit.

17. PLACEMENTS WITH BANKS

	2020 Rs.	2019 Rs.
Placements with local banks	-	751,456,928
Provision for impairment (Note 17.1)	-	(198,508)
	-	751,258,420

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

17.1 Impairment provision for placements with banks

	2020 Rs.	2019 Rs.
Opening balance at 01st January	198,508	173,533
Charge to Income Statement	(198,508)	24,975
Closing balance at 31st December	-	198,508

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18. PLACEMENTS WITH BRANCHES

	2020 Rs.	2019 Rs.
Deutsche Bank AG - Branches	11,115,030,876	3,875,053,739
Total	11,115,030,876	3,875,053,739

19. DERIVATIVE FINANCIAL INSTRUMENTS

	2020 Rs.	2019 Rs.
Foreign currency derivatives		
Forward foreign exchange contracts	79,241,542	37,878,127
Total	79,241,542	37,878,127

20. GROUP BALANCE RECEIVABLE

	2020 Rs.	2019 Rs.
Branches (Branches of Deutsche Bank AG-Frankfurt)	3,514,966,200	944,515,205
Subsidiaries (Subsidiaries of Deutsche Bank AG-Frankfurt)	-	660,391,284
Other Inter-group receivable from Branches and Head Office	186,040,232	101,973,721
	3,701,006,432	1,706,880,210

21. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020 Rs.	2019 Rs.
Sri Lanka Government Securities		
Treasury Bills	711,261,643	1,450,416,710
Treasury Bonds	7,929,277,418	5,349,023,416
	8,640,539,060	6,799,440,126

22. FINANCIAL ASSETS AT AMORTISED COST - LOANS AND ADVANCES

Financial assets at amortized cost - Loans and advances to customers	2020 Rs.	2019 Rs.
Gross loans and advances	19,307,084,029	14,643,024,531
Provision for impairment (Note 22 c)	(4,397,245)	(3,329,441)
Net loans and advances	19,302,686,784	14,639,695,090

22.a Gross loans and advances

	2020 Rs.	2019 Rs.
Stage 1	19,074,220,234	14,643,024,531
Stage 2	232,863,796	-
	19,307,084,029	14,643,024,531
Less: Accumulated impairment		
Stage 1	(4,247,944)	(3,326,358)
Stage 2	(149,301)	(3,083)
	(4,397,245)	(3,329,441)
Net loans and advances	19,302,686,784	14,639,695,090

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22. FINANCIAL ASSETS AT AMORTISED COST - LOANS AND ADVANCES (Contd...)

22.b Analysis

	2020 Rs.	2019 Rs.
By product		
Overdrafts	10,843,729,531	11,465,941,412
Trade finance	7,776,260,465	2,756,769,037
Staff loans	171,077,228	190,559,750
Supplier Finance	516,016,805	229,754,332
Gross total	19,307,084,029	14,643,024,531
By currency		
Sri Lankan Rupee	12,536,508,960	9,640,045,831
United States Dollar	6,750,031,449	4,713,013,648
Euro	20,543,621	289,965,052
Gross total	19,307,084,030	14,643,024,531
By industry		
Agriculture and fishing	2,352,024,423	1,950,708,178
Manufacturing	4,181,679,601	3,904,768,053
Tourism	691,160,614	552,227,395
Transport	765,939,495	200,465,529
Construction	4,732,065,685	2,469,307,925
Traders	6,346,642,147	4,505,717,172
Professional, Scientific & Technical	165,630,885	984,204,340
Others	71,941,181	75,625,939
Gross total	19,307,084,029	14,643,024,531

22.c Movements in impairment during the year

	2020	2019
Stage 1		
Opening balance as at 01st January	3,326,358	4,796,892
(Write back)/Charge to Income Statement	921,586	(1,470,534)
Closing balance at 31st December	4,247,944	3,326,358
Stage 2		
Opening balance as at 01st January	3,083	207,923
(Write back) to Income Statement	146,218	(204,840)
Closing balance at 31st December	149,301	3,083
Total	4,397,245	3,329,441

23. FINANCIAL ASSETS AT AMORTISED COST - DEBT AND OTHER FINANCIAL INSTRUMENTS

	2020	2019
Sri Lanka Government Securities		
Sri Lanka Development Bonds	9,505,412,644	5,582,198,516
Provision for impairment (Note 23 a)	(230,877,089)	(77,956,990)
Net Debt and other financial instruments	9,274,535,555	5,504,241,526

23.a Movements in impairment during the year

	2020	2019
Stage 1		
Opening balance as at 01st January	77,956,990	-
Charge/(Write back) to Income statement	57,501,353	77,956,990
Closing balance at 31st December	135,458,344	77,956,990
Stage 2		
Opening balance as at 01st January	-	-
Charge/(Write back) to income statement	95,418,746	-
Closing balance at 31st December	95,418,746	-
Total	230,877,089	77,956,990

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24. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2020 Rs.	2019 Rs.
Sri Lanka Government Securities		
Treasury Bills	5,210,106,947	4,402,721,537
Treasury Bonds	213,962,126	-
Sri Lanka Development Bonds	-	3,713,518,773
Equity instruments (Note 24.a.)	42,338,984	42,338,984
Net financial assets at fair value through other comprehensive income	5,466,408,057	8,158,579,294

24.a Equity instruments

	2020			2019		
	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	19,813,819
Lanka Clear (Private) Limited	150,000	1,500,000	22,525,165	150,000	1,500,000	22,525,165
		1,600,000	42,338,984		1,600,000	42,338,984

24.b Analysis

	2020	2019
By collateralization		
Unencumbered	5,466,408,057	8,158,579,294
Gross Total	5,466,408,057	8,158,579,294
By currency		
Sri Lankan Rupee	5,466,408,057	4,445,060,521
United States Dollar	-	3,713,518,773
Gross total	5,466,408,057	8,158,579,294

24.c Movements in impairment during the year

	2020	2019
Stage 1		
Opening balance as at 01st January	2,331,893	32,507,353
Charge/(Write back) to Other Comprehensive income (Note 11)	(2,331,893)	(30,175,460)
Closing balance at 31st December	-	2,331,893
Stage 2		
Opening balance as at 01st January	-	-
Charge/(Write back) to Other Comprehensive income	-	-
Closing balance at 31st December	-	-
Total	-	2,331,893

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

25. PROPERTY, PLANT & EQUIPMENT

As at 31st December 2020	Computer Equipment	EDP Mainframe	Safes	Paintings & Art Objects	Telephone & Telex	Office Equipment	Furniture & Fittings	Right-of-Use Asset	Total 2020
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.		Rs.
Cost									
Opening balance at 1st January 2020	66,605,237	92,802,909	1,876,527	744,000	41,828,234	16,541,305	116,533,804	182,402,976	519,334,992
Additions	8,147,565	7,684,723	-	-	-	-	18,483,533	-	34,315,822
Disposals	(7,265,205)	(593,099)		-	(586,805)	-	-	-	(8,445,109)
Closing balance at 31st December 2020	**67,487,597**	**99,894,533**	**1,876,527**	**744,000**	**41,241,429**	**16,541,305**	**135,017,337**	**182,402,976**	**545,205,705**
Accumulated depreciation									
Opening balance at 1st January 2020	55,317,034	84,042,485	1,876,505	743,996	33,444,228	15,789,065	108,456,034	47,430,384	347,099,730
Charge for the year	9,131,651	7,057,588	-		2,044,210	417,971	5,366,644	60,342,185	84,360,249
Disposals	(7,265,107)	(593,094)	-		(586,799)	-	-		(8,445,000)
Closing balance at 31st December 2020	**57,183,578**	**90,506,978**	**1,876,505**	**743,996**	**34,901,638**	**16,207,036**	**113,822,678**	**107,772,569**	**423,014,978**
Carrying value as at 31st December 2020	**10,304,019**	**9,387,555**	**22**	**4**	**6,339,791**	**334,269**	**21,194,659**	**74,630,407**	**122,190,726**

Out of the above depreciation charge of Rs. 84,360,249/- for the year, Rs. 4,302,135/- has been apportioned to FCBU. Accordingly Rs. 80,058,114/- was charged to DBU.

The cost of fully depreciated assets which are still in use is Rs. 232,539,494/- as at reporting date.

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25.1 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	-	-	-	-	-	-	-	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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26. DEFERRED TAX (LIABILITIES)/ASSETS

	2020 Rs.	2019 Rs.
Deferred tax assets (Note 26.1)	94,667,557	18,312,100
Deferred tax liabilities (Note 26.2)	(2,843,329)	(47,268,465)
	91,824,228	(28,956,365)

The movements on the deferred tax account is as follows:

26.1 Deferred tax assets

	2020	2019
Balance as at the beginning of the year	18,312,100	32,813,751
(Reversed)/originated during the year - recognized in profit or loss	70,695,518	(9,667,701)
(Reversed)/originated during the year - recognized in other comprehensive income	5,659,939	(4,833,950)
Balance as at the end of the year	94,667,557	18,312,100

26.2 Deferred tax liabilities

	2020	2019
Balance as at the beginning of the year	47,268,465	7,989,625
Originated/(Reversed) during the year through profit or loss	(44,425,136)	27,871,924
Originated during the year through other comprehensive income	-	11,406,916
Balance as at the end of the year	2,843,329	47,268,465

26.3 Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	2020		2019	
	Temporary difference	Tax effect	Temporary difference	Tax effect
Deferred tax assets				
Employee benefit obligation	80,922,411	22,658,275	65,170,001	18,247,600
Fair value loss of FVOCI - Debt instruments	12,204,895	3,417,371	-	-
Provision for cash retention payment	-	-	230,358	64,500
Provision for impairment losses	244,971,112	68,591,911	-	-
	338,098,418	94,667,557	65,400,359	18,312,100
Deferred tax liabilities				
Depreciation of property, plant and equipment	10,424,668	2,918,907	21,773,894	6,096,690
Fair value gain of FVOCI	-	-	40,738,984	11,406,916
Provision for restricted equity	1,354,462	379,249	526,670	147,468
Right-of-use assets	15,118,057	4,233,056	134,972,592	37,792,326
Lease liability	(16,783,877)	(4,699,485)	(29,196,197)	(8,174,935)
Provision for cash retention payment	41,435	11,602	-	-
	10,154,745	2,843,329	168,815,943	47,268,465

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27. OTHER ASSETS

	2020 Rs.	2019 Rs.
Financial assets		
Clearing account balances (Note 27.1)	235,115,549	343,385,450
	235,115,549	343,385,450
Non-financial assets		
Deposits and prepayments	31,317,258	38,402,344
Tax receivable (Note 27.2)	288,017,233	276,614,855
Others	51,821,936	7,184,537
	371,156,428	322,201,736
Total	606,271,977	665,587,186

27.1 Clearing account balances

The 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 Exchange transactions.

Receivable from Lanka Clear for cheque clearing	230,046,529	319,514,755
FX clearing receivable from Sampath Bank PLC	5,069,020	23,870,695
	235,115,549	343,385,450

27.2 Tax receivable

	2020 Rs.	2019 Rs.
Income tax refunds	288,017,233	249,652,487
WHT receivable	-	11,962,021
ESC receivable	-	14,407,257
Other	-	593,090
	288,017,233	276,614,855

28. DUE TO BANKS

	2020 Rs.	2019 Rs.
Borrowings - CBSL	115,573,425	-
Total	115,573,425	-

29. Due to branches

Deutsche Bank AG - Branches	15,323,403,157	17,816,192,003
Total	15,323,403,157	17,816,192,003

30. DERIVATIVE FINANCIAL INSTRUMENTS

	2020 Rs.	2019 Rs.
Foreign exchange derivatives		
Forward foreign exchange contracts	101,050,944	40,243,365
Total	101,050,944	40,243,365

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31. FINANCIAL LIABILITIES AT AMORTIZED COST - DUE TO	2020 Rs.	2019 Rs.
Due to depositors	30,523,133,659	16,714,490,579
Total	30,523,133,659	16,714,490,579

31.a Analysis of amount due to depositors

By product		
Demand deposits (current accounts)	21,415,578,648	10,934,799,232
Savings deposits	4,577,792,432	2,837,310,623
Margin deposits	153,812,415	118,567,000
Fixed deposits	4,375,950,164	2,823,813,724
Total	30,523,133,659	16,714,490,579
By currency		
Sri Lanka Rupee	16,369,066,035	12,730,977,232
United States Dollar	12,745,105,052	2,185,196,453
Great Britain Pound	26,813,506	17,723,063
Euro	1,368,014,845	1,721,762,895
Swiss Frank	1,735,816	40,440,770
Others*	12,398,406	18,390,166
Total	30,523,133,659	16,714,490,579

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

32. EMPLOYEE BENEFIT

32.1 Defined contribution plans

The following contributions have been made to Employees' Provident Fund and Employees' Trust Fund during the year:

	2020 Rs.	2019 Rs.
Employees' Provident Fund		
Employers' Contribution	41,649,602	45,224,771
Employees' Contribution	24,989,761	25,969,489
Employees' Trust Fund	4,997,952	5,193,898

32.2 Defined benefit plan - gratuity	2020 Rs.	2019 Rs.
Opening balance as at 01st January	65,170,001	113,989,061
Provision for the Year (Note 32.a)	12,593,800	17,248,808
Actuarial (gain) / loss during the Year (Note 32.b)	8,009,174	(17,264,106)
Gratuity paid during the Year	(4,850,564)	(48,803,762)
Closing balance as at 31st December	80,922,411	65,170,001

32.a Provision recognized in the Profit or Loss

Current Service Cost	5,099,250	4,140,066
Interest on Obligation	7,494,550	13,108,742
	12,593,800	17,248,808

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32. EMPLOYEE BENEFIT (Contd...)

32.b Provision recognized in other comprehensive income

	2020 Rs.	2019 Rs.
Actuarial (gain) / loss during the year	8,009,174	(17,264,106)
	8,009,174	(17,264,106)

32.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 2020 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 2020.

	2020	2019
Discount Rate %	6.8%	11.5%
Future salary increment rate %	5.5%	5%

32.d Sensitivity analysis - 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 2020		31 December 2019	
	Present Value of Defined Benefit Obligation		Present Value of Defined Benefit Obligation	
	1% Increase	1% Decrease	1% Increase	1% Decrease
Discount Rate	78,078,297	84,004,245	63,361,413	67,105,611
Salary Escalation Rate	84,291,886	77,760,848	67,412,786	63,047,460

33. CURRENT TAX LIABILITIES

	2020 Rs.	2019 Rs.
Opening balance as at 01st January	138,763,183	586,021,807
Charge for the year	373,046,199	218,734,440
Over/under provision adjustment in respect of prior years	-	(292,205,750)
Payments	(257,166,393)	(373,787,314)
Others	(4,601,674)	-
Closing balance as at 31st December	250,041,315	138,763,183

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34. OTHER LIABILITIES

	2020 Rs.	2019 Rs.
Financial liabilities		
Lease liability (Note 34.1)	16,783,877	29,196,197
Clearing account balance (Note 27.1)	18,546,204	35,218,592
	35,330,080	64,414,789
Non-financial liabilities		
Accrued expenditure	93,875,432	51,420,498
Provision for Impairment of Commitments and Contingencies (Note 34.2)	1,495,463	842,328
Country risk (Note 34.3)	7,521,773	5,528,901
Other tax liability	17,945,386	48,155,937
Staff EPF reserve	33,684,048	44,560,754
Other payables	53,184,267	2,411,057
	207,706,369	152,919,475
Total	243,036,449	217,334,264

34.1 Lease liability

	2020 Rs.	2019 Rs.
Balance at 01 January	29,196,197	28,807,129
Additions	-	10,766,207
Charge for the year	2,790,456	3,655,637
Payment during the year	(15,202,776)	(14,032,776)
Balance at 31 December	16,783,877	29,196,197
Lease liability within one year	14,812,776	12,412,320
Lease liability after one year	1,971,101	16,783,877
	16,783,877	29,196,197

There are no lease liabilities beyond 5 years of tenure.

34.2.a Provision for impairment commitments and contingencies

This provision relates to the impairment for undrawn commitments and Off balance sheet facilities computed using the relevant credit conversion factors.

34.2.b Movements in impairment during the year

	2020 Rs.	2019 Rs.
Stage 1		
Opening balance as at 01st January	842,328	2,282,661
Write back to Income Statement	653,135	(1,440,333)
Closing balance at 31st December	1,495,463	842,328
Stage 2		
Opening balance as at 01st January	-	45,844
Write back to Income Statement	-	(45,844)
Closing balance at 31st December	-	-
Total	1,495,463	842,328

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34. OTHER LIABILITIES (Contd...)

34.3 Provision for country risk

Country Risk is defined as the risk that the 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.

	2020 Rs.	2019 Rs.
Balance as at 01 January	5,528,901	5,325,307
During the year charge/ write back	1,992,872	203,594
Balance as at 31st December	7,521,773	5,528,901

35. GROUP BALANCE PAYABLE

	2020 Rs.	2019 Rs.
Inter-entity expenses payable to HO and branches	2,162,345,211	3,107,770,642
Branches (Branches of Deutsche Bank AG-Frankfurt)	135,341,010	49,951,559
Total	2,297,686,221	3,157,722,201

The 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 intercompany liabilities, part of unremitted liabilities were transferred to equity as "Contributed Assets". Prior to such transfer a confirmation from the Head Office was obtained stating that the counterparties will not demand payment of such liabilities. The approval of CBSL was also obtained.

36. ASSIGNED CAPITAL

	2020 Rs.	2019 Rs.
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

37. STATUTORY RESERVE FUND

	2020 Rs.	2019 Rs.
Opening balance at 01st January	702,905,584	641,508,689
Transfers during the period	46,418,541	61,396,895
Closing balance at 31st December	749,324,125	702,905,584

37.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.

38. RETAINED EARNINGS

	2020 Rs.	2019 Rs.
Opening balance at 01st January	2,305,422,853	1,126,451,683
Profit for the year	928,370,822	1,227,937,909
Net actuarial gain/loss on defied benefit plan	(8,009,174)	17,264,106
Tax on other comprehensive income	2,242,569	(4,833,950)
Transfer to/from other reserves	(46,418,541)	(61,396,895)
Closing balance at 31st December	3,181,608,529	2,305,422,853

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39. OTHER RESERVES

	Opening balance at 01st January	Movement/ transfers	Closing balance at 31st December
Exchange equalisation of capital (Note 39.a)	512,397,424	27,911,214	540,308,638
Foreign currency translation reserve (Note 39.b)	261,416,239	26,297,398	287,713,637
Fair value OCI reserve	(11,326,094)	(11,119,417)	(22,445,511)
Reserve through Contributed Assets (Note 39.c)	3,743,212,907	1,875,341,000	5,618,553,907
Total	4,505,700,476	1,918,430,194	6,424,130,670

As at 31st December 2019

	Opening balance at 01st January	Movement/ transfers	Closing balance at 31st December
Exchange equalisation of capital (Note 39.a)	523,634,406	(11,236,982)	512,397,424
Foreign currency translation reserve (Note 39.b)	266,151,609	(4,735,370)	261,416,239
Fair value OCI reserve	(10,482,702)	(843,392)	(11,326,094)
Reserve through Contributed Assets (Note 39.c)	3,743,212,907	-	3,743,212,907
Total	4,522,516,220	(16,815,744)	4,505,700,476

39.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.

39.b Exchange equalisation of reserve

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

39.c Reserve through contributed assets

As explained in note number 35 this is the un remittable head office and other group payables amounting to Rs.1,875,341,000/-reported during the financial year 2016 to 2018 converted to equity during the financial year 2020 with prior approval of Central Bank of Sri Lanka

40. CONTINGENT LIABILITIES AND COMMITMENTS

	2020 Rs.	2019 Rs.
Guarantees	11,545,858,233	7,930,312,010
Letters of credit	3,188,542,626	3,715,104,641
Forward exchange contracts	(183,744)	(59,172,388)
Usance Import Bills	3,266,522,864	707,537,295
Core accepteance	84,029,400	365,940,107
Undrawn loan commitments	19,958,319,968	15,776,274,017
Total	38,043,089,347	28,435,995,682

40.a Movements in impairment during the year

	2020	2019
Opening balance as at 01 January	842,328	2,328,505
Write back to Income Statement	653,135	(1,486,177)
Closing balance as at 31 December	1,495,463	842,328

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41. 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'.

41.1 Transactions with Key Management Personnel (KMP)

Key Management Personnel (KMP) are those having authority and responsibility for planning, directing and controlling the activities of the entity as per Sri Lanka Accounting Standard - LKAS 24 on " Related Party Disclosures". Accordingly, the branch KMP includes the members of its Branch Management Board (BMB) & selected officers performing executive functions who meet the above criteria.

For the year ended 31 December

41.1.1 Compensation to KMP	2020 Rs.	2019 Rs.
Short term employee benefits	172,848,953	201,097,550
Post employment benefits	95,387,771	416,894,418
Termination benefits	21,067,200	16,671,719
Share based payments	112,304	304,091

41.1.2 Transactions, arrangements and agreements involving KMP

Lending facilities granted to KMP

Lending facilities granted to KMP	50,854,361	50,119,747
Interest charged on lending facilities granted to KMP	2,027,031	1,910,673

41.1.3 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 dependents of the KMP or the KMP domestic partner. CFM are related parties to the Branch.

There is no transactions reported during the reporting period related to close family members.

41.1.4 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

41.2 Transactions and balances with Group entities

41.2.a Transactions with Deutsche Bank Group

The Branch engages in Inter-Group Borrowings and Lendings, derivative financial instruments with Group Entities, Transfer Pricing Fees receivable from Group Entities, sale or purchase of Investment Securities in between group entities, and the Branch's Provident Fund.

Amount receivable and payable from/to Group entities disclosed in Notes 20 and 35.

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41. RELATED PARTY TRANSACTIONS (Contd...)

41.2.a Transactions with Deutsche Bank Group (Contd...)

As at December	2020 Rs.	2019 Rs.
Statement of Financial Position		
Placement with branches	11,115,030,876	3,875,053,739
Derivative financial instruments - assets	72,564,446	3,979,934
Group balance receivable		
Branches (Branches of Deutsche Bank AG-Frankfurt)	3,514,966,200	944,515,205
Subsidiaries (Subsidiaries of Deutsche Bank AG-Frankfurt)	-	660,391,284
Other Inter-group receivable from Branches and Head Office	186,040,232	101,973,721
Due to branches	15,323,403,157	17,816,192,003
Derivative financial instruments - liabilities	60,835,510	11,606,070
Group balance payable		
Inter-entity expenses payable to HO and branches	2,162,345,211	3,107,770,642
Branches (Branches of Deutsche Bank AG-Frankfurt)	135,341,010	49,951,559
Contingent liabilities and commitments	4,302,772,397	4,968,522,917

For the year ended 31 December	2020 Rs.	2019 Rs.
Income statement		
Interest income	19,738,999	79,498,759
Interest expense	349,461,196	369,726,186
Other income	101,094,841	21,696,163
Other operating expenses	1,055,386,384	1,091,127,333

41.2.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 entity is a post- employment benefit plan for the benefits of employees of the entity.

As at December	2020 Rs.	2019 Rs.
Statement of Financial Position		
Financial liabilities at amortized cost - Due to Depositors	106,129,172	37,226,417

For the year ended 31 December	2020 Rs.	2019 Rs.
Income statement		
Other operating expenses	206,281	171,000

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42. 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 2020	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 by type							
Non-derivative assets							
Cash and cash equivalents	663,785,519	663,785,519	-	-	-	-	663,785,519
Balances with Central Bank	4,636,851,418	4,636,851,418	-	-	-	-	4,636,851,418
Placements with branches	11,115,030,876	11,115,030,876	-	-	-	-	11,115,030,876
Financial assets measured at fair value through profit or loss (FVTPL)	8,640,539,060	169,666,509	7,741,533,845	729,338,707	-	-	8,640,539,060
Financial assets at amortized cost - Loans and advances to customers	19,307,084,029	19,019,408,750	152,242,464	52,564,664	31,530,987	51,337,164	19,307,084,029
Financial assets at amortized cost – Debt and other instruments	9,505,412,644	1,902,239,111	3,798,416,429	3,804,757,125	-	-	9,505,412,665
Financial assets measured at fair value through other comprehensive income (FVOCI)	5,466,408,057	2,590,283,430	2,833,785,643	-	-	42,338,984	5,466,408,057
Group balances receivables	3,701,006,432	3,514,966,200	186,040,232	-	-	-	3,701,006,432
Other assets	235,115,549	235,115,549	-	-	-	-	235,115,549
Derivative assets							
Derivative financial instruments	79,241,542	79,241,542	-	-	-	-	79,241,542
Financial liabilities by type							
Non-derivative liabilities							
Due to Banks	115,573,425	-	115,573,425	-	-	-	115,573,425
Due to branches	15,323,403,157	7,913,403,157	3,705,000,000	3,705,000,000	-	-	15,323,403,157
Financial liabilities at amortized cost - Due to depositors	30,523,133,659	30,523,133,659	-	-	-	-	30,523,133,659
Other liabilities	35,330,080	35,330,080	-	-	-	-	35,330,080
Group balance payable	2,297,686,221	2,297,686,221	-	-	-	-	2,297,686,221
Derivative liabilities							
Derivative financial instruments	101,050,944	101,050,944	-	-	-	-	101,050,944

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42. MATURITY ANALYSIS FOR FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Contd...)

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 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 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 (FVTPL)	6,799,440,126	-	1,551,807,866	5,247,632,260	-	-	6,799,440,126
Financial assets at amortized cost - Loans and advances to customers	14,643,024,531	14,467,901,334	22,187,383	88,190,385	26,744,812	38,000,618	14,643,024,531
Financial assets at amortized cost – Debt and other instruments	5,582,198,516	-	-	5,582,198,516	-	-	5,582,198,516
Financial assets measured at fair value through other comprehensive income (FVOCI)	8,158,579,294	4,342,545,702	3,773,694,608	-	-	42,338,984	8,158,579,294
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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43. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

43.1 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 2020	AC Rs.	FVTPL Rs.	FVOCI Rs.	Total Rs.
Financial assets				
Cash and cash equivalents	663,785,519	-	-	663,785,519
Balances with Central Bank	4,636,851,418	-	-	4,636,851,418
Placements with branches	11,115,030,876	-	-	11,115,030,876
Derivative financial instruments	-	79,241,542	-	79,241,542
Financial assets measured at fair value through profit or loss (FVTPL)	-	8,640,539,060	-	8,640,539,060
Financial assets at amortized cost - Loans and advances to customers	19,302,686,784	-	-	19,302,686,784
Financial assets at amortized cost – Debt and other instruments	9,274,535,555	-	-	9,274,535,555
Financial assets measured at fair value through other comprehensive income (FVOCI)	-	-	5,466,408,057	5,466,408,057
Group balances receivables	3,701,006,432	-	-	3,701,006,432
Other assets	235,115,549	-	-	235,115,549
Total financial assets	48,929,012,134	8,719,780,602	5,466,408,057	63,115,200,793

	AC Rs.	FVTPL Rs.	Total Rs.
Financial liabilities			
Due to Banks	115,573,425	-	115,573,425
Due to branches	15,323,403,157	-	15,323,403,157
Derivative financial instruments	-	101,050,944	101,050,944
Financial liabilities at amortized cost - Due to depositors	30,523,133,659	-	30,523,133,659
Group balance payable	2,297,686,221	-	2,297,686,221
Other liabilities	35,330,080	-	35,330,080
Total financial liabilities	48,295,126,542	101,050,944	48,396,177,486

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	751,258,420	-	-	751,258,420
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 to customers	14,639,695,090	-	-	14,639,695,090
Financial assets at amortized cost – Debt and other instruments	5,504,241,526	-	-	5,504,241,526
Financial assets measured at fair value through other comprehensive income (FVOCI)	-	-	8,158,579,294	8,158,579,294
Group balances receivables	1,706,880,210	-	-	1,706,880,210
Other assets	343,385,450	-	-	343,385,450
Total financial assets	34,613,027,601	6,837,318,253	8,158,579,294	49,608,925,148

	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 - Due to depositors	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 financial liabilities	37,752,819,572	40,243,365	37,793,062,937

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

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43. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS (Contd...)

Valuation framework

The Branch has an established control framework for the measurement of fair values. This framework includes a separate control function within Market Risk Management, which is independent of front office management in reporting to the Branch Management Board (BMB) of the Branch. The BMB has overall responsibility for independently verifying the results of operations and all significant fair value measurements.

43.2.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 December 2020	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Financial assets				
Derivative financial instruments	-	79,241,542	-	79,241,542
Financial assets measured at fair value through profit or loss				
Treasury Bills	711,261,643	-	-	711,261,643
Treasury Bonds	7,929,277,418	-	-	7,929,277,418
Financial assets measured at fair value through other comprehensive income				
Treasury Bills	5,210,106,947	-	-	5,210,106,947
Treasury Bonds	213,962,126	-	-	213,962,126
Equity securities	-	-	42,338,984	42,338,984
Total financial assets	14,064,608,133	79,241,542	42,338,984	14,186,188,659
Financial liabilities				
Derivative financial instruments	-	101,050,944	-	101,050,944
Total financial liabilities	-	101,050,944	-	101,050,944

As at 31st December 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	-	3,713,518,773	-	3,713,518,773
Equity securities	-	-	42,338,984	42,338,984
Total financial assets	11,202,161,663	3,751,396,900	42,338,984	14,995,897,547
Financial liabilities				
Derivative financial instruments	40,243,365	-	-	40,243,365
Total financial liabilities	40,243,365	-	-	40,243,365

43. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS (Contd...)

43.2.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 (e.g. 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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43. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS (Contd...)

43.2.b Financial instruments not measured at fair value and fair value hierarchy (Contd...)

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 2020					*As at 31 December 2019*				
	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	-	663,785,519	-	663,785,519	663,785,519	-	115,867,718	-	115,867,718	115,867,718
Balances with Central Bank	-	4,636,851,418	-	4,636,851,418	4,636,851,418	-	7,676,645,448	-	7,676,645,448	7,676,645,448
Placements with Banks	-	-	-	-	-	-	751,258,420	-	751,258,420	751,258,420
Placements with Branches	-	11,115,030,876	-	11,115,030,876	11,115,030,876	-	3,875,053,739	-	3,875,053,739	3,875,053,739
Group balances receivables	-	3,701,006,432	-	3,701,006,432	3,701,006,432	-	1,706,880,210	-	1,706,880,210	1,706,880,210
Financial assets at amortized cost - Loans and advances to customers	-	19,302,686,784	-	19,302,686,784	19,302,686,784	-	14,639,695,090	-	14,639,695,090	14,639,695,090
Financial assets at amortized cost – Debt and other instruments	-	9,330,228,408	-	9,330,228,408	9,274,535,555	-	5,526,328,041	-	5,526,328,041	5,504,241,526
Other Assets	-	-	235,115,549	235,115,549	235,115,549	-	-	343,385,450	343,385,450	343,385,450
	-	48,749,589,438	235,115,549	48,984,704,987	48,929,012,134	-	34,291,728,666	343,385,450	34,635,114,116	34,613,027,601
Financial Liabilities										
Due to Banks	-	115,573,425	-	115,573,425	115,573,425	-	-	-	-	-
Due to branches	-	15,323,403,157	-	15,323,403,157	15,323,403,157	-	17,816,192,003	-	17,816,192,003	17,816,192,003
Financial liabilities at amortized cost - Due to depositors	-	30,523,133,659	-	30,523,133,659	30,523,133,659	-	16,714,490,579	-	16,714,490,579	16,714,490,579
Group Balance Payable	-	135,341,010	2,162,345,211	2,297,686,221	2,297,686,221	-	49,951,559	3,107,770,642	3,157,722,201	3,157,722,201
Other Liabilities	-	-	35,330,080	35,330,080	35,330,080	-	-	64,414,789	64,414,789	64,414,789
	-	45,981,877,826	2,197,675,291	48,179,553,117	48,179,553,117	-	34,580,634,141	3,172,185,431	37,752,819,572	37,752,819,572

43. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS (Contd...)

43.3 Valuation Techniques and Inputs in Measuring Fair Values

The 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 43.2a above.

Type of Financial Instruments	Fair Value as at 31 December Rs.	Valuation Technique	Significant Valuation Inputs
Derivative Financial Assets	79,241,542	Adjusted Forward Rate Approach	-Spot exchange rate
Derivative Financial Liabilities	101,050,944	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

43.4 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 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**
Balance as at 1 January 2020	42,338,984
Gain included in OCI	
- Net change in fair value (unrealized)	-
Balance as at 31 December 2020	**42,338,984**

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44. FINANCIAL RISK REVIEW

44.1 Key types of Risks

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

Credit Risk
Liquidity risk
Market risk
Operational Risk

44.1.1 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
Counterparty risk	Risk that counterparties 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.

44.1.1.1 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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44. FINANCIAL RISK REVIEW (Contd...)

44.1.1 Credit risk (Cont...)

44.1.1.2 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	2020 Rs.	2019 Rs.
On-balance sheet items		
Cash and cash equivalents	591,696,778	67,697,203
Balances with Central Bank	4,637,530,960	7,676,645,448
Placements with banks	-	751,258,420
Placements with branches	11,115,030,876	3,875,053,739
Group balances receivable	3,701,006,432	1,706,880,210
Financial assets measured at fair value through profit or loss (FVTPL)	8,640,539,060	6,799,440,126
Financial assets at amortized cost - Loans and advances to customers	19,307,084,029	14,643,024,531
Financial assets at amortized cost - Debt and other instruments	9,505,412,644	5,582,198,516
Financial assets measured at fair value through other comprehensive income	5,466,408,057	8,158,579,294
Other assets	235,115,549	343,385,450
Total on-balance sheet items	63,199,824,386	49,604,162,937
Off-balance sheet items		
Guarantees	11,545,858,233	7,930,312,010
Letters of credit	3,188,542,626	3,715,104,641
Forward exchange contracts	(183,744)	(59,172,388)
Usance Import Bills	3,266,522,864	707,537,295
Core acceptance	84,029,400	365,940,107
Undrawn loan commitments	19,958,319,968	15,776,274,017
Total off-balance sheet items	38,043,089,347	28,435,995,682

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44. FINANCIAL RISK REVIEW (Contd...)

44.1.1 Credit risk (Cont...)

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

As at 31 December 2020	Sri Lanka Rs.	Asia Pacific (excl Sri Lanka) Rs.	North & Latin America Rs.	Europe Rs.	Total Rs.
On-balance sheet items					
Cash and cash equivalents	-	19,531,508	1,557,349	570,607,921	591,696,778
Balances with Central Bank	4,636,851,418	-	-	-	4,636,851,418
Placements with Branches	-	11,115,030,876	-	-	11,115,030,876
Group balances receivable	-	-	1,670,362,568	2,030,643,864	3,701,006,432
Financial assets measured at fair value through profit or loss (FVTPL)	8,640,539,060	-	-	-	8,640,539,060
Financial assets at amortized cost - Loans and advances to customers	19,307,084,029	-	-	-	19,307,084,029
Financial assets at amortized cost - Debt and other instruments	9,505,412,644	-	-	-	9,505,412,644
Financial assets measured at fair value through other comprehensive income (FVOCI)	5,466,408,057	-	-	-	5,466,408,057
Other assets	235,115,549	-	-	-	235,115,549
Total on-balance sheet items	**47,791,410,759**	**11,134,562,384**	**1,671,919,917**	**2,601,251,785**	**63,199,144,845**
Off-balance sheet items					
Guarantees	1,462,927,644	1,975,488,927	-	8,107,441,663	11,545,858,233
Letters of credit	3,153,016,626	-	-	35,526,000	3,188,542,626
Forward exchange contracts	(183,744)	-	-	-	(183,744)
Usance Import Bills	3,266,522,864	-	-	-	3,266,522,864
Core acceptances	84,029,400	-	-	-	84,029,400
Undrawn loan commitments	19,958,319,968	-	-	-	19,958,319,968
Total off-balance sheet items	**27,924,632,758**	**1,975,488,927**	**-**	**8,142,967,663**	**38,043,089,347**

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44. FINANCIAL RISK REVIEW (Contd...)

44.1.1 Credit risk (Cont...)

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

As at 31 December 2019	Sri Lanka Rs.	Asia Pacific (excl Sri Lanka) Rs.	North & Latin America Rs.	Europe Rs.	Total Rs.
On-balance sheet items					
Cash and cash equivalents	-	24,532,500	1,557,349	41,607,354	67,697,203
Balances with Central Bank	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	-	132,669,293	660,391,358	913,819,559	1,706,880,210
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 to customers	14,643,024,531	-	-	-	14,643,024,531
Financial assets at amortized cost - Debt and other instruments	5,582,198,516	-	-	-	5,582,198,516
Financial assets measured at fair value through other comprehensive income (FVOCI)	8,158,579,294	-	-	-	8,158,579,294
Other assets	343,385,450	-	-	-	343,385,450
Total on-balance sheet items	**43,954,531,785**	**4,032,255,532**	**661,948,707**	**955,426,913**	**49,604,162,937**
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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44. FINANCIAL RISK REVIEW (Contd...)

44.1.1 Credit risk (Cont...)

44.1.1.4 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 2020							
Cash and Cash Equivalents	-	-	-	-	663,785,519	-	663,785,519
Balances with Central bank	-	-	-	-	4,636,851,418	-	4,636,851,418
Placements with branches	-	-	-	-	11,115,030,876	-	11,115,030,876
Group balances receivable	-	-	-	-	3,701,006,432	-	3,701,006,432
Financial assets measured at fair value through profit or loss (FVTP	-	-	-	-	8,640,539,060	-	8,640,539,060
Financial assets at amortized cost - Loans and advances to customers	2,352,024,423	4,181,679,601	4,732,065,685	6,346,642,147	-	1,694,672,175	19,307,084,029
Financial assets at amortized cost - Debt and other instruments	-	-	-	-	9,505,412,644	-	9,505,412,644
Financial assets measured at fair value through other comprehensive	-	-	-	-	5,466,408,057	-	5,466,408,057
Other assets	-	-	-	-	235,115,549	-	235,115,549
	2,352,024,423	**4,181,679,601**	**4,732,065,685**	**6,346,642,147**	**43,964,149,556**	**1,694,672,175**	**63,271,233,585**

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44. FINANCIAL RISK REVIEW (Contd...)

44.1.1 Credit risk (Cont...)

44.1.1.4 Concentrations of Credit Risk (Contd...)

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	-	-	-	-	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
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 to customers	1,950,708,178	3,904,768,053	2,469,307,925	4,505,717,172	-	1,812,523,203	14,643,024,531
Financial assets at amortized cost - Debt and other instruments	-	-	-	-	5,582,198,516	-	5,582,198,516
Financial assets measured at fair value through other comprehensive income (FVOCI)	-	-	-	-	8,158,579,294	-	8,158,579,294
Other assets	-	-	-	-	343,385,450	-	343,385,450
	1,950,708,178	3,904,768,053	2,469,307,925	4,505,717,172	35,009,308,921	1,812,523,203	49,652,333,452

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

As at December 31		2020		2019	
	Type	Utilisation / Exposure	Total	Utilisation / Exposure	Total
		Rs.	Rs.	Rs.	Rs.
< 1 year	On-balance sheet	58,638,607,497		44,247,503,028	
	Off-Balance Sheet	28,347,580,427	86,986,187,924	23,662,802,484	67,910,305,512
1 year- 5 years	On-balance sheet	4,618,191,483		5,362,567,457	
	Off-Balance Sheet	9,668,736,514	14,286,927,997	3,502,188,897	8,864,756,354
> 5 years	On-balance sheet	93,676,148		80,339,602	
	Off-Balance Sheet	26,772,407	120,448,555	1,271,004,301	1,351,343,903

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44. FINANCIAL RISK REVIEW (Contd…)

44.1.1 Credit risk (Cont...)

44.1.1.6 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 December	2020			2019		
	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	198,508	-	198,508	173,533	-	173,533
(Reversal)/Charge during the year	(198,508)	-	(198,508)	24,975	-	24,975
Balance at 31 December	-	-	-	198,508	-	198,508
Balances with Central Bank						
Balance at 1 January	-	-	-	-	-	-
Charge during the year	679,541	-	679,541	-	-	-
Balance at 31 December	679,541	-	679,541	-	-	-

No impairment provision was recognised on Placements with Branches at Amortised Cost.

For the year ended 31st December	2020			2019		
	Stage 1	Stage 2	Total	Stage 1	Stage 2	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Financial assets at amortized cost - Loans and advances to customers						
Balance at 1 January	3,326,358	3,083	3,329,441	4,796,892	207,923	5,004,815
(Reversal)/Charge during the year	921,586	146,218	1,067,804	(1,470,534)	(204,840)	(1,675,374)
Balance at 31 December	4,247,944	149,301	4,397,245	3,326,358	3,083	3,329,442

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44. FINANCIAL RISK REVIEW (Contd...)

44.1.1 Credit risk (Cont...)

Financial assets at amortized cost - Debt and other instruments

Balance at 1 January	77,956,990	-	77,956,990	-	-	-
(Reversal)/Charge during the year	57,501,353	95,418,746	152,920,099	77,956,990	-	77,956,990
Balance at 31 December	135,458,344	95,418,746	230,877,089	77,956,990	-	77,956,990

Financial assets measured at fair value through other comprehensive income (FVOCI)

Balance at 1 January	2,331,893	-	2,331,893	32,507,353	-	32,507,353
Charge/(reversal) during the year	(2,331,893)	-	(2,331,893)	(30,175,460)	-	(30,175,460)
Balance at 31 December	-	-	-	2,331,893	-	2,331,893

Commitments and Contingencies

Balance at 1 January	842,328	-	842,328	2,282,661	45,844	2,328,505
(Reversal) during the year	653,135	-	653,135	(1,440,333)	(45,844)	(1,486,177)
Balance at 31 December	1,495,463	-	1,495,463	842,328	-	842,328

44.1.1.7 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.

	2020		2019	
	Notional Amount Rs.	Fair Value Rs.	Notional Amount Rs.	Fair Value Rs.
Forward Contracts				
Derivative financial assets	5,524,008,785	79,241,542	11,881,010,512	37,878,127
Derivative financial liabilities	6,133,559,635	101,050,944	16,754,837,166	40,243,365

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44. FINANCIAL RISK REVIEW (Contd...)

44.1.1 Credit risk (Cont...)

44.1.1.8 Offsetting financial assets and financial 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.

44.1.2 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.

44.1.2.1 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

- 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

- 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.

44.1.2.2 Liquidity risk stress testing

The Branch 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 the Branch. 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.

44. FINANCIAL RISK REVIEW (Contd...)

44.1.2 Liquidity Risk (Contd...)

44.1.2.3 Exposure to liquidity risk – Regulatory liquidity

As at 31 December	2020 Rs.	2019 Rs.
Exposure to liquidity risk – Regulatory liquidity		
Statutory Liquid Assets Ratio (SLAR)		
- Domestic Banking unit	90%	79%
- Off-Shore Banking unit	80%	81%
Liquidity Coverage Ratio (LCR)		
- All Currency	328%	311%
- Rupee	785%	389%
Net Stable Funding Ratio (NSFR)	158%	140%
Key measures of liquidity		
Net loans to total assets	30%	29%
Loans to customer deposits	63%	88%
Liquid assets to short term liabilities	113%	118%
Commitments to Liquid assets	45%	45%

44.1.2.4 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 the Central Bank of Sri Lanka (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	2020		2019	
	Carrying value Rs.	Fair value Rs.	Carrying value Rs.	Fair value Rs.
Cash and cash equivalents	663,785,519	663,785,519	115,867,718	115,867,718
Balances with Central Bank	4,636,851,418	4,636,851,418	7,676,645,448	7,676,645,448
Placements with Banks	-	-	751,258,420	751,258,420
Placements with Branches	11,115,030,876	11,115,030,876	3,875,053,739	3,875,053,739
Unencumbered debt securities issued by sovereigns				
- Financial assets measured at fair value through profit or loss (FVTPL)	8,640,539,060	8,640,539,060	6,799,440,126	6,799,440,126
- Financial assets at amortized cost – Debt and other instruments	9,505,412,644	9,330,228,408	5,582,198,516	5,526,328,041
- Financial assets measured at fair value through other comprehensive income (FVOCI)	5,466,408,057	5,466,408,057	8,158,579,294	8,158,579,294
Total liquidity reserves	16,415,667,813	25,056,206,873	12,418,825,325	19,218,265,451

The Branch's expected cash flows on some financial assets and financial liabilities vary significantly from the 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.

44. FINANCIAL RISK REVIEW (Contd...)

44.1.2 Liquidity Risk (Contd...)

44.1.2.5 Maturity analysis for financial assets & liabilities

The following tables set out the remaining contractual maturities of financial assets & 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.
Financial assets by type							
Cash and cash equivalents	663,785,519	663,785,519	-	-	-	-	663,785,519
Balances with Central Bank	4,636,851,418	4,636,851,418	-	-	-	-	4,636,851,418
Placements with Branches	11,115,030,876	11,115,030,876	-	-	-	-	11,115,030,876
Financial assets measured at fair value through profit or loss (FVTPL)	8,640,539,060	169,666,509	7,741,533,845	729,338,707	-	-	8,640,539,060
Financial assets at amortized cost - Loans and advances to customers	19,307,084,029	19,019,408,750	152,242,464	52,564,664	31,530,987	51,337,164	19,307,084,029
Financial assets at amortized cost – Debt and other instruments	9,505,412,644	1,902,239,111	3,798,416,429	3,804,757,125	-	-	9,505,412,665
Financial assets measured at fair value through other comprehensive income (FVOCI)	5,466,408,057	2,590,283,430	2,833,785,643	-	-	42,338,984	5,466,408,057
Group Balances Receivables	3,701,006,432	3,514,966,200	186,040,232	-	-	-	3,701,006,432
Other assets	235,115,549	235,115,549	-	-	-	-	235,115,549
Derivative financial instruments	79,241,542	79,241,542	-	-	-	-	79,241,542
As at 31 December 2020							
Financial liability by type							
Due to Banks	115,573,425	-	115,573,425	-	-	-	115,573,425
Due to Branches	15,323,403,157	7,913,403,157	3,705,000,000	3,705,000,000	-	-	15,323,403,157
Financial liabilities at amortized cost - Due to Depositors	30,523,133,659	30,523,133,659	-	-	-	-	30,523,133,659
Other liabilities	35,330,080	35,330,080	-	-	-	-	35,330,080
Group Balance Payable	2,297,686,221	2,297,686,221	-	-	-	-	2,297,686,221
Derivative financial instruments	101,050,944	101,050,944	-	-	-	-	101,050,944

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44. FINANCIAL RISK REVIEW (Contd…)

44.1.2 Liquidity Risk (Contd…)

44.1.2.5 Maturity analysis for financial assets & liabilities (Contd..)

The following tables set out the remaining contractual maturities of Financial Assets & 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 assets by type							
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 (FVTPL)	6,799,440,126	-	1,551,807,866	5,247,632,260	-	-	6,799,440,126
Financial assets at amortized cost - Loans and advances to customers	14,643,024,531	14,467,901,334	22,187,383	88,190,385	26,744,812	38,000,618	14,643,024,531
Financial assets at amortized cost – Debt and other instruments	5,582,198,516	-	-	5,582,198,516	-	-	5,582,198,516
Financial assets measured at fair value through other comprehensive income (FVOCI)	8,158,579,294	4,342,545,702	3,773,694,608	-	-	42,338,984	8,158,579,294
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 financial instruments	37,878,127	37,878,127	-	-	-	-	37,878,127
Financial liability by type							
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 financial instruments	40,243,365	40,243,365	-	-	-	-	40,243,365

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44. FINANCIAL RISK REVIEW (Contd...)

44.1.2 Liquidity Risk (Contd...)

44.1.2.6 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	2020			2019		
	Encumbered/ Pledged as Collateral Rs.	Unencumbered/ Available as collateral Rs.	Total Rs.	Encumbered/ Pledged as Collateral Rs.	Unencumbered/ Available as Collateral Rs.	Total Rs.
Financial Assets						
Cash and cash equivalents	-	663,785,519	663,785,519	-	115,867,718	115,867,718
Balances with Central Bank	-	4,636,851,418	4,636,851,418	-	7,676,645,448	7,676,645,448
Placements with banks	-	-	-	-	751,258,420	751,258,420
Placements with branches	-	11,115,030,876	11,115,030,876	-	3,875,053,739	3,875,053,739
Derivative financial Instruments	-	79,241,542	79,241,542	-	37,878,127	37,878,127
Financial assets at amortized cost - Loans and advances to customers	-	19,307,084,029	19,307,084,029	-	14,643,024,531	14,643,024,531
Financial assets at amortized cost – Debt and other instruments	-	9,505,412,644	9,505,412,644.24	-	5,582,198,516	5,582,198,516
Financial assets measured at fair value through other comprehensive income (FVOCI)	-	5,466,408,057	5,466,408,057	-	8,158,579,294	8,158,579,294
Financial assets measured at fair value through profit or loss (FVTPL)		8,640,539,060	8,640,539,060	-	6,799,440,126	-
Group balance receivable	-	3,701,006,432	3,701,006,432	-	1,706,880,210	1,706,880,210
Other Assets	-	235,115,549	235,115,549	-	343,385,450	343,385,450
Total Financial Assets	-	**63,350,475,127**	**63,350,475,127**	-	**49,690,211,579**	**42,890,771,453**

Financial Assets Pledged as Collateral

No financial assets have been pledged as collateral as at the reporting date (2020: NIL).

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44. FINANCIAL RISK REVIEW (Contd...)

44.1.3 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 off balance 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's 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 structure that governs transactions in financial instruments. The policies are reviewed periodically to incorporate therein, changed business requirements, economic environment and revised policy guidelines.

44.1.3.1 Management of market risks

The Branch 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 Board (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.

44.1.3.2 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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44. FINANCIAL RISK REVIEW (Contd…)

44.1.3 Market Risk (Contd…)

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 2020	**Carrying amount Rs.**	**Trading portfolio Rs.**	**Non-trading portfolio Rs.**
Assets subject to market risk			
Cash and cash equivalents	663,785,519	-	663,785,519
Balances with Central Bank	4,636,851,418	-	4,636,851,418
Placements with branches	11,115,030,876	-	11,115,030,876
Derivative Financial Assets	79,241,542	79,241,542	-
Financial assets at amortized cost - Loans and advances to customers	19,307,084,029	-	19,307,084,029
Financial assets at amortized cost – Debt and other instruments	9,505,412,644	-	9,505,412,644
Financial assets measured at fair value through other comprehensive income (FVOCI)	5,466,408,057	-	5,466,408,057
Financial assets measured at fair value through profit or loss (FVTPL)	8,640,539,060	8,640,539,060	-
Group balance receivable	3,701,006,432	-	3,701,006,432
Liabilities subject to market risk			
Due to banks	115,573,425	-	115,573,425
Due to Branches	15,323,403,157	-	15,323,403,157
Derivative financial instruments	101,050,944	101,050,944	-
Financial liabilities at amortized cost - Due to Depositors	30,523,133,659	-	30,523,133,659
Group Balance Payable	2,297,686,221	-	2,297,686,221
As at 31 December 2019			
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 amortized cost - Loans and advances to customers	14,643,024,531	-	14,643,024,531
Financial assets at amortized cost – Debt and other instruments	5,582,198,516	-	5,582,198,516
Financial assets measured at fair value through other comprehensive income (FVOCI)	8,158,579,294	-	8,158,579,294
Financial assets measured at fair value through profit or loss	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

44. FINANCIAL RISK REVIEW (Contd...)

44.1.3 Market Risk (Contd...)

44.1.3.1 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 2020	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	663,785,519	663,785,519	-	-	-	-	663,785,519
Balances with Central Bank	4,636,851,418	4,636,851,418	-	-	-	-	4,636,851,418
Placements with branches	11,115,030,876	11,115,030,876	-	-	-	-	11,115,030,876
Financial assets measured at fair value through profit or loss (FVTPL)	8,640,539,060	169,666,509	7,741,533,845	729,338,707	-	-	8,640,539,060
Financial assets at amortized cost - Loans and advances to customers	19,307,084,029	19,019,408,750	152,242,464	52,564,664	31,530,987	51,337,164	19,307,084,029
Financial assets at amortized cost – Debt and other instruments	9,505,412,644	1,902,239,111	3,798,416,429	3,804,757,125	-	-	9,505,412,665
Financial assets measured at fair value through other comprehensive income (FVOCI)	5,466,408,057	2,590,283,430	2,833,785,643	-	-	42,338,984	5,466,408,057
Financial Liabilities							
Due to banks	115,573,425	-	115,573,425	-	-	-	115,573,425
Due to Branches	15,323,403,157	7,913,403,157	3,705,000,000	3,705,000,000	-	-	15,323,403,157
Financial liabilities at amortized cost - Due to depositors	30,523,133,659	30,523,133,659	-	-	-	-	30,523,133,659
As at 31 December 2019							
Financial 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	751,258,420	751,258,420	-	-	-	-	751,258,420
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 (FVTPL)	6,799,440,126	-	1,551,807,866	5,247,632,260	-	-	6,799,440,126
Financial assets at amortized cost - Loans and advances to customers	14,643,024,531	14,467,901,334	22,187,383	88,190,385	26,744,812	38,000,618	14,643,024,531
Financial assets at amortized cost – Debt and other instruments	5,582,198,516	-	-	5,582,198,516	-	-	5,582,198,516
Financial assets measured at fair value through other comprehensive income (FVOCI)	8,158,579,294	4,342,545,702	3,773,694,608	-	-	42,338,984	42,338,984
Financial 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

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44. FINANCIAL RISK REVIEW (Contd...)

44.1.4 COVID-19 PANDEMIC

Macroeconomic and market conditions

If growth prospects, the interest rate environment as well as competition in the financial services industry worsen compared to our expectations, this could adversely affect our business, the results of our operations and/ or our strategic plans. Since early 2020 our macroeconomic business and operating environment has been dominated by the COVID-19 pandemic. We expect economic recovery in 2021 as COVID-19 vaccination becomes more available in the country and additional fiscal stimulus is provided.

Due to the largely unprecedented nature of the COVID-19 crisis, forecast uncertainty will probably remain unusually high for quite some time. As a Bank, our working assumption remains that lagging effects of the recession caused by the COVID-19 pandemic will continue to unfold in 2021 and that the low interest rate environment in the country will persist for several quarters at least. During 2020, we observed a worsening of the creditworthiness of certain portfolios due to the deterioration of the overall economic situation, which is also reflected in our increased level of loan loss provisions. If the situation continues to worsen, it may lead to additional rating declines among our clients, further increasing loan losses as well as potential client drawdowns of credit facilities (as observed earlier in 2020) which in turn would lead to an increase in capital requirements and liquidity demands.

Policy measures taken by the Central Bank of Sri Lanka and Government Agencies are helping to mitigate some of the short-term impacts. Sri Lanka has introduced debt moratoria for private clients and small businesses, as well as supporting measures such as state-backed credit programs for corporates. Customers could apply for all of these moratoria during a given application phase while the measure, depending on the respective moratoria, could run over a longer time period (mostly up to three or six months, sometimes even longer).

The COVID-19 pandemic has intensified the "lower for longer" interest rate environment. This has resulted in further pressure on bank interest margins and a prolonged period of low interest rates could materially affect our profitability and balance sheet deployment. While our revenues are particularly sensitive to interest rates, given the size of our loans and deposits, the low interest rate environment can also impact other balance sheet positions which are accounted at fair value.

The low interest rate environment has also supported elevated market valuations across risk assets as investors search for yield, with the technology sector in particular focus. In recent weeks this has included concerted action from retail investors resulting in a short squeeze across selected assets. These trends raises the risk of a significant price correction which may potentially be triggered by delays to vaccine rollout, lower vaccine efficacy and / or an increase in interest rates. Risks are amplified by high debt levels, a lack of liquidity in some areas of the market and an easing of global underwriting standards.

Adverse market conditions, unfavourable prices and volatility including material movements in foreign exchange rates (and resulting translation effects) as well as cautious investor and client sentiment may in the future materially and adversely affect our revenues and profits as well as the timely and complete achievement of our strategic aspirations and targets.

Macroeconomic and market conditions (cont.)

Liquidity risk could arise from lower value and marketability of assets, as these would affect the amount of proceeds available for covering cash outflows during a stress event. Additional haircuts may be incurred on top of any already impaired asset values. Moreover, securities might lose their eligibility as collateral necessary for accessing central bank facilities, as well as their value in the repo/wholesale funding market. As such, a debt crisis would directly affect the bank's liquidity position.
The aforementioned external developments can impact our revenue generating capabilities, while market declines and volatility could also negatively impact the value of financial instruments and cause us to incur losses.

If multiple key downside risks simultaneously materialize and/or occur in combination with a more pronounced economic slowdown, the negative impact on our business environment could be more severe than currently expected.

Liquidity and funding risks

In terms of liquidity, the Branch ensured that it maintained adequate funds over and above the minimum requirement mandated by CBSL to meet regulatory as well as customer requirements after the outbreak of Covid-19 in the country. The CBSL intervened in a timely manner to assist the Banking industry by adopting various extraordinary measures to maintain and enhance the stability of banks and other financial institutions. Key highlights among others were the reduction of the minimum requirement of Liquidity Coverage Ratio from 100% to 90% till 30 June 2021 and favourable changes to the qualifying criteria of Statutory Liquid Asset Ratio which were offered considering the market conditions faced in the wake of the pandemic. The Statutory Reserve Requirement was also reduced from 5% in the beginning of the financial year to 2% by June 2020 to expand credit growth and revive economic activity.

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44. FINANCIAL RISK REVIEW (Contd...)

Risk management policies, procedures and methods as well as operational risks

Although we have devoted significant resources to develop our risk management policies, procedures and methods, including with respect to market, credit, liquidity, operational as well as reputational and model risk, they may not be fully effective in mitigating our risk exposures in all economic or market environments or against all types of risk, including risks that we fail to identify or anticipate. Where we use these models to calculate risk-weighted assets for regulatory purposes, potential deficiencies may also lead regulators to impose a recalibration of input parameters or a complete review of the model.

We may face operational risks arising from failures in our internal control environment or errors in the performance of our processes, e.g. in transaction processing, as well as loss of business continuity, which may disrupt our business and lead to material losses. At the same time, we may also face risks of material losses or reputational damage if services third parties facilitate are not provided as agreed or in line with our internal standards.

Risk management policies, procedures and methods as well as operational risks (cont.)

From an operational perspective, and despite the business continuity and crisis management policies currently in place, the COVID-19 pandemic, unexpected developments such as the emergence of new mutations of the virus and resulting rapid changes in government responses may continue to have an adverse impact on our business activities. The move across global industries to conduct business from home and away from primary office locations continues to put pressure on business practices, the demand on our technology infrastructure and also the risk of cyber-attacks which could lead to technology failures, security breaches, unauthorized access, loss or destruction of data or unavailability of services, as well as increase the likelihood of conduct breaches. Any of these events could result in litigation or result in a financial loss, disruption of our business activities and liability to our customers, regulatory scrutiny, government intervention or damage to our reputation. At the same time the cost to us of managing these cyber, information security and other risks remains high.

In order to manage financial and non-financial risk impacts of COVID-19, Branch is utilizing dedicated governance structures including Global and Regional Crisis Management. More broadly and where relevant, additional controls and processes have been established including additional reporting to ensure relevant senior stakeholders. We expect a demanding year 2021 from a risk management perspective.

Impact on Impairment

To fight the COVID-19 pandemic in 2020, Sri Lanka imposed strict lockdowns of economic activity – particularly with regards to travel, hospitality and events. The lockdowns together with the collapse in consumer and business sentiment caused one of the most severe recessions in recent history. As the pandemic unfolded, economists slashed their forecasts for variables such as Gross Domestic Product and employment.

Based on Management's opinion that the standard methodology did not provide a reliable indicator for future credit losses as it took a very short term view of the development of those variables and considering regulatory guidance provided, Management determined that the most representative approach in 2020 for estimating expected credit losses was to reduce the weight of some of the short-term data and derive adjusted inputs based on longer term averages. As a result, the Branch viewed it more appropriate to apply an overlay during 2020 to ensure its ECL provision was adequate.

The overlay is based on averaging forecasts for GDP and unemployment rates over the next three years in its ECL estimation, which is the basis for the bank's year end 2020 Credit Loss Allowance.
The forward-looking information is derived from broader consensus and market- implied projections as aggregated, expanded and quality-assured within Risk Management. The Branch has reviews the forward looking indicators used in the calculation of the impairment charges and concluded that these indicators are reasonable in the context of the Branch's credit portfolio and overall risk profile.

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45. CAPITAL ADEQUACY

Capital Adequacy is a measure of the 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.

The Central Bank of Sri Lanka sets and monitors regulatory capital requirements 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. The Branch has complied with the minimum capital requirements imposed by the Central Bank of Sri Lanka throughout the year.

46. NON - CASH ITEMS INCLUDED IN PROFIT BEFORE TAX

	2020 Rs.	2019 Rs.
Depreciation of property, plant and equipment	84,360,249	69,784,915
Write off of Assets	109	423,156
Reversal/(charge) of Impairment losses on loans and advances	1,067,804	(1,675,374)
(Charge)/reversal of Impairment losses on FVTOCI	(2,331,893)	(30,175,460)
Off balance sheet impairment	653,135	(1,486,177)
Reversal of Impairment losses on Placements	481,033	24,975
Provision for Country risk	1,992,872	203,594
Charge for defined benefit plans	12,593,800	17,248,808
Tax credits	-	-
Inter-entity Expense	1,055,386,384	1,091,127,377
Net Unrealized Forward Exchange Loss	19,444,569	4,340,612
	1,173,648,062	1,149,816,426

47. CHANGE IN OPERATING ASSETS

	2020 Rs.	2019 Rs.
Change in derivative financial instruments	21,918,846	34,664,752
Change in balance with Central Bank	(3,039,794,030)	5,069,118,458
Change in financial assets at amortized cost - Debt and other instruments	3,770,294,029	5,504,241,526
Change in placement with banks	(751,739,453)	(2,449,328,346)
Change in placements with branches	7,239,977,137	215,810,781
Change in group balance receivable	1,994,126,222	(675,434,981)
Change in financial assets measured at fair value through profit or loss (FVTPL)	1,841,098,934	6,799,440,126
Change in financial assets at amortized cost - Loans and Advances	4,661,923,890	2,660,795,352
Change in financial assets measured at fair value through other comprehensive income (FVOCI)	(2,679,966,342)	(7,181,899,317)
Change in other assets	(8,657,955)	(1,422,396,721)
	13,049,181,278	8,555,011,630

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48. CHANGE IN OPERATING LIABILITIES

	2020 Rs.	2019 Rs.
Change in due to banks	115,573,425	-
Change in financial liabilities at amortized cost - Due to Depositors	13,808,643,080	1,382,832,387
Change in due to branches	(2,492,788,846)	6,043,101,909
Change in other liabilities	19,377,719	(233,119,343)
Change in due to Group balance	(40,081,365)	(115,245,981)
Derivative financial instruments	60,807,580	34,660,559
	11,471,531,593	7,112,229,531

49. 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.

50. CAPITAL COMMITMENTS

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

51. LITIGATION AND CLAIMS

Litigation is a common occurrence in the banking industry due to the nature of the business. The Branch has an established protocol for dealing with such legal claims. The Branch has below pending legal claims which the Branch does not expect cash outflows from such 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 bearing Nos. 785BG01500238 and 785BG01500239 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 Prima Ceylon Limited, JRS Shipping Limited, Hatton National Bank PLC and Deutsche Bank AG ("the Bank") 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.

51. LITIGATION AND CLAIMS (Contd...)

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 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.

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.

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52. COMPARATIVE INFORMATION

The presentation and classification in the financial statements have been amended where appropriate to ensure comparability with the current year.

	Note	Measurement category	31 December 2019 (as previously reported)	Adjustments for changes		31 December 2019 (as restated)
				in classification	in measurement (ECL)	
Assets						
Financial assets at amortized cost - Debt and other instruments	23	Amortised Cost	-	5,504,241,526	-	5,504,241,526
Financial assets measured at fair value through other comprehensive income (FVOCI)	24	FVOCI	13,740,777,811	(5,582,198,516)	-	8,158,579,294
Equity						
Other reserves	39		4,583,657,467	-	(77,956,990)	4,505,700,476

The portfolio of Sri Lanka Development Bonds (SLD Bonds) were previously classified and measured as Financial Assets at Fair Value Through Other Comprehensive Income (FVOCI). As one of the objectives of the Branch was to hold a part of such assets only to collect their contractual cash flows, the corresponding sub-portfolio of SLD bonds were reported in the current year within the Financial Assets category measured at Amortised Cost with any previously reported balances and amounts in the comparative period corresponding to that sub - portfolio adjusted and presented, as appropriate. No adjustments were necessary for the opening balances of the comparative period as the portfolio of SLD Bonds held prior to 2019 were held within a business model of holding to collect and sell, and therefore FVOCI being appropriate.

53. 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.

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