DEUTSCHE BANK AG – COLOMBO BRANCH

FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31ST DECEMBER 2017

KPMG
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INDEPENDENT AUDITORS' REPORT

TO THE MANAGEMENT OF DEUTSCHE BANK AG – COLOMBO BRANCH

Report on the Financial Statements

We have audited the accompanying financial statements of Deutsche Bank AG – Colombo Branch ("the Branch"), which comprise the statement of financial position as at December 31, 2017, and the 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 set out on pages 2 to 69 of the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of these 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Branch as at December 31, 2017, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

CHARTERED ACCOUNTANTS
Colombo, Sri Lanka
May 25, 2018

DEUTSCHE BANK AG - COLOMBO BRANCH

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31st December	Notes	2017 Rs.	2016 Rs.
Interest Income		**2,609,927,378**	2,713,525,505
Less : Interest Expenses		**563,073,411**	413,696,978
Net Interest Income	5	**2,046,853,967**	2,299,828,527
Fee and Commission Income		**645,078,516**	656,351,924
Less : Fee and Commission Expenses		**22,277,740**	22,535,244
Net Fee and Commission Income	6	**622,800,776**	633,816,680
Net gain from trading	7	**624,143,145**	319,959,057
Net (loss) from financial instruments at fair value through profit or loss		-	(47,571,249)
Net gains from financial investments		-	(6,136,275)
Other Operating income	8	**24,063,875**	103,667,830
Total Operating income		**3,317,861,763**	3,303,564,570
Charge Impairment on Loan Losses	9	**(1,018,812)**	(12,065,232)
Net Operating Income		**3,316,842,951**	3,291,499,338
Personnel Expenses	10	**393,345,987**	418,234,226
Other Expenses	11	**1,391,418,912**	1,127,282,756
Operating Profit Before Value Added Tax and Nation Building Tax on Financial Services	12	**1,532,078,052**	1,745,982,356
Value Added Tax and Nation Building Tax on Financial Services	13	**285,650,916**	204,879,884
Profit Before Income Tax		**1,246,427,136**	1,541,102,472
Less : Income Tax Expenses	14	**780,294,696**	478,534,135
Profit for the Year		**466,132,440**	1,062,568,337
Other Comprehensive Income			
Items that will be not be reclassified to profit or loss			
Net acturial gain /(loss) on Defined Benefit plan		**17,779,027**	(9,731,866)
Related tax		**(4,978,128)**	2,724,922
Items that are or may be reclassified subsequently to profit or loss			
(Loss)/ Gains on Translating the Financial Statements of the FCBU		**(15,829,860)**	52,188,448
Change in Fair Value of Available - for -Sale Financial Assets		**17,125,202**	5,628,917
Related tax		**(332,511)**	(6,038,626)
Other Comprehensive Income, net of tax		**13,763,730**	44,771,795
Total Comprehensive Income		**479,896,170**	1,107,340,132

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

DEUTSCHE BANK AG - COLOMBO BRANCH

STATEMENT OF FINANCIAL POSITION

As at 31st December

	Notes	2017 Rs.	2016 Rs.
Assets			
Cash and Cash Equivalents	15	**178,378,495**	193,773,348
Balances with Central Bank	16	**649,920,855**	1,527,672,857
Placement with Banks	17	**3,165,118,777**	2,876,324,685
Derivative Financial Instruments	18	**3,178,675**	56,140,231
Group Balances Receivable	19	**3,108,443,184**	3,857,142,968
Loans and Receivables to Other Customers	20	**9,524,056,819**	10,499,161,095
Financial investments - Available for Sale	21	**16,264,562,000**	18,474,791,127
Property, Plant and Equipment	22	**64,775,501**	76,234,169
Deferred Tax Assets	23	**17,249,204**	31,967,386
Other Assets	24	**1,009,483,024**	2,053,555,162
Total Assets		**33,985,166,534**	39,646,763,028
Liabilities and Equity			
Liabilities			
Due to Banks	25	**714,546,575**	-
Derivatives Financial Instruments	26	**4,265,960**	35,286,013
Due to Other Customers	27	**11,560,749,665**	12,800,170,018
Current Tax Liability		**580,598,357**	278,236,676
Employee Benefits	28	**104,147,958**	109,986,844
Other Liabilities	29	**405,875,664**	229,095,683
Group Balances Payable	30	**9,244,765,769**	11,878,574,473
Subordinated Term Debt	31	**-**	1,366,654,264
Total Liabilities		**22,614,949,948**	26,698,003,971
Equity			
Assigned Capital	32	**4,410,461,270**	4,410,461,270
Statutory Reserve Fund	33	**619,600,166**	595,653,499
Retained Earnings	34	**2,152,607,128**	3,756,059,097
Other Reserves	35	**4,187,548,022**	4,186,585,191
Total Equity		**11,370,216,586**	12,948,759,057
Total Equity and Liabilities		**33,985,166,534**	39,646,763,028
Contingent Liabilities and Commitments	36	**30,918,560,430**	25,684,260,444

The annexed notes to the Financial Statements form an integral part of these Financial Statements.
The Management is responsible for the preparation and presentation of these Financial Statements.
Approved and signed for and on behalf of the Management:

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Chief Country Officer
Rohan Rodrigo

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Head of Finance
Evelyn Mohamed

25th May 2018
Colombo

DEUTSCHE BANK AG - COLOMBO BRANCH
STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December

	Assigned Capital	Statutory Reserve	Retained earnings	Other Reserves: Available For Sale Reserve	Other Reserves: Exchange equalization of Capital	Other Reserves: Exchange equalization of Reserve	Other Reserves: Reserve through Contributted Assets	Other Reserves: Total Other reserves	Total equity
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at 1st January 2016	4,410,461,270	542,875,429	3,653,073,275	(4,418,119)	242,709,848	153,301,816	1,780,876,243	2,172,469,788	10,778,879,762
Profit for the year	-	-	1,062,568,337	-	-	-	-	-	1,062,568,337
Other comprehensive income									
Change in Fair Value of Available - for -Sale Financial Assets	-	-	-	5,628,917	-	-	-	5,628,917	5,628,917
Acturial loss in defined benefits plan	-	-	(9,731,866)	-	-	-	-	-	(9,731,866)
Gains on Translating the Financial Statements of the FCBU	-	-	-	-	39,873,163	12,315,285	-	52,188,448	52,188,448
Tax on other comprehensive income	-	-	2,724,922	(6,038,626)	-	-	-	(6,038,626)	(3,313,704)
Total comprehensive income for the year	-	-	**1,055,561,393**	**(409,709)**	**39,873,163**	**12,315,285**	-	**51,778,739**	**1,107,340,132**
Transactions recognised directly in equity							-	-	-
Transfer to statutory reserve fund	-	52,778,070	(52,778,070)	-	-	-	-	-	
Profit transfer to head office	-	-	(899,797,501)	-	-	-	-	-	(899,797,501)
Special reserves (Note 30.1)	-	-	-	-	-	-	1,962,336,664	1,962,336,664	1,962,336,664
Balance as at 31st December 2016	**4,410,461,270**	**595,653,499**	**3,756,059,097**	**(4,827,828)**	**282,583,011**	**165,617,101**	**3,743,212,907**	**4,186,585,191**	**12,948,759,057**
Balance as at 1st January 2017	4,410,461,270	595,653,499	3,756,059,097	(4,827,828)	282,583,011	165,617,101	3,743,212,907	4,186,585,191	12,948,759,057
Profit for the year	-	-	466,132,440	-	-	-	-	-	466,132,440
Other comprehensive income									
Change in Fair Value of Available - for -Sale Financial Assets	-	-	-	17,125,202	-	-	-	17,125,202	17,125,202
Acturial gain in defined benefits plan	-	-	17,779,027		-	-	-	-	17,779,027
Loss on Translating the Financial Statements of the FCBU	-	-	-	-	26,823,764	(42,653,624)	-	(15,829,860)	(15,829,860)
Tax on other comprehensive income	-	-	(4,978,128)	(332,511)	-	-	-	(332,511)	(5,310,639)
Total comprehensive income for the year	-	-	**478,933,339**	**16,792,691**	**26,823,764**	**(42,653,624)**	-	**962,831**	**479,896,170**
Transactions recognised directly in equity									
Transfer to statutory reserve fund	-	23,946,667	(23,946,667)	-	-	-	-	-	-
Profit transfer to head office 2014 and 2015 (Note 34.1)	-	-	(2,058,438,641)	-	-		-	-	(2,058,438,641)
Balance as at 31st December 2017	**4,410,461,270**	**619,600,166**	**2,152,607,128**	**11,964,863**	**309,406,775**	**122,963,477**	**3,743,212,907**	**4,187,548,022**	**11,370,216,586**

Figures in brackets indicate deductions.

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

DEUTSCHE BANK AG - COLOMBO BRANCH

CASH FLOW STATEMENT

For the year ended 31st December	Note	2017 Rs.	2016 Rs.
Cash Flows from Operating Activities			
Profit before taxation		1,246,427,136	1,541,102,472
Adjustment for:			
Non-cash items included in profits before tax	38	850,827,034	576,454,626
Interest expense on subordinate debts		15,333,371	19,714,249
Change in operating assets	39	5,600,558,605	5,425,397,832
Change in operating liabilities	40	(3,889,150,859)	(6,465,268,168)
Net gain from investing activities		(2,171,250)	(855,000)
Net unrealised (loss) / gain from translation of Financial statements of Foreign Operation		(15,829,860)	52,188,448
Cash generated from operating activities		**3,805,994,177**	**1,148,734,459**
Contribution paid to defined benefit plans		(6,139,204)	(28,085,537)
Income tax paid		(361,362,412)	(186,317,545)
Net cash generated from operating activities		**3,438,492,561**	**934,331,377**
Cash Flows from Investing Activities			
Purchase of property, plant and equipment		(15,632,394)	(29,619,018)
Dividend received from investment		2,171,250	855,000
Net cash used in generated investing activities		**(13,461,144)**	**(28,764,018)**
Cash Flows from Financing Activities			
Interest and subordinated debt paid		(1,381,987,629)	(22,598,476)
Profit transfer to head office		(2,058,438,641)	(899,797,501)
Net cash used in financing activities		**(3,440,426,270)**	**(922,395,977)**
Net decrease in cash & cash equivalents		(15,394,853)	(16,828,618)
Cash and cash equivalents at the beginning of the year		193,773,348	210,601,966
Cash and cash equivalents at the end of the year		**178,378,495**	**193,773,348**

1. REPORTING ENTITY

1.1 Reporting entity

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

1.2 Principal activities

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

1.3 Number of employees

The permanent staff strength of the Branch as at 31 December 2017 is 70. (2016 - 69)

2. BASIS OF PREPARATION

2.1 Statement of compliance

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

2.2 Management Responsibility on Financial Statements

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

These Financial Statements include the following components:

- a 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 utilise those cash flows ;
- Notes to the Financial Statements comprising Accounting Policies and other explanatory information.

2.3 Approval of Financial Statements by the Management

These Financial Statements were authorized for issue by the Management on 25th May 2018.

2.4 Basis of measurement

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

- Financial instruments designated at fair value through profit or loss are measured at fair value.
- Financial instruments such as loans, receivables and deposits are at amortised cost
- Available for sale financial assets are measured at fair value.
- The defined benefit asset is recognized at the present value of the defined benefit obligation.

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

2.5 Basis of consolidation

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

2.6 Presentation of Financial Statements

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

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

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. Income and expenses are not offset in the Statement of Profit or Loss and Other Comprehensive Income unless required or permitted by an Accounting Standard or interpretation, and as specifically disclosed in the Accounting Policies of the Branch.

2.7 Materiality and Aggregation

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

2.8 Comparative Information

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

2.9 Use of estimates and judgments

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

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

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- Impairment of Financial assets and liabilities (Note 3.6)
- Current taxation (Note 3.3.1.a)
- Deferred taxation (Note 3.3.1.b)
- Defined Benefit Plan (Note 3.13.3)
- Commitments and Contingencies (Note 3.14)
- Determination of fair value (Note 3.6)
- Recognition of trade date profit (Note 3.6)

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

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 recognised 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.

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

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

- All assets and liabilities (i.e including comparatives) are translated at the closing rate of each reporting date

- Income and expense items for all periods (i.e including comparatives) are translated at average exchange rates pertaining to each period

- Equity items other than the net profit or loss for the period are translated at the historical rate existing at the date of each transaction

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

3.3 Taxation

3.3.1 Income Tax Expenses

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

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

a) Current Taxation

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

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

The Branch's liability to taxation has been computed in accordance with the provisions of the Inland Revenue Act No 10 of 2006 and amendments thereto.

b) Deferred Taxation

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

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

3.3.2 Other taxes

a) Crop Insurance Levy (CIL)

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

b) Value Added Tax on Financial Services

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

c) Nation Building Tax on Financial Services (NBT)

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

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

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.

ASSETS AND BASES OF THEIR VALUATION

3.4 Cash and cash equivalents

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

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

3.5 Statutory deposits with Central Bank

The Monetary Law Act requires that all commercial banks operating in Sri Lanka to maintain reserves against all deposit liabilities denominated in Sri Lankan Rupees. The details of reserve requirements are given in Note 16 to the Financial Statements.

3.6 Financial Instruments - Classification, Initial Recognition and Subsequent Measurement

Financial Assets and Liabilities

The Branch classifies its financial assets and liabilities into the following categories: financial assets and liabilities at fair value through profit or loss, loans and receivables, financial assets available for sale ("AFS") and other financial liabilities. Appropriate classification of financial assets and liabilities is determined at the time of initial recognition or when reclassified in the financial position.

Financial assets and financial liabilities classified at fair value through profit or loss and financial assets classified as AFS are recognized or derecognized on trade date if a regular way period for the instrument exist. Trade date is the date on which the Branch commits to purchase or sell the asset or issue or repurchase the financial liability. Financial instruments measured at amortized cost are recognized on a settlement date basis.

Financial Assets and Liabilities at Fair Value through Profit or Loss

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

Trading Assets and Liabilities – Financial instruments 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 and equity securities, derivatives held for trading purposes, commodities and trading Loans. Trading liabilities consist primarily of derivative liabilities and short positions.

Financial Instruments Designated at Fair Value through Profit or Loss – Certain financial assets and liabilities that do not meet the definition of trading assets and 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 assets and 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 assets or liabilities or both 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. In addition, the Group allows the fair value option to be designated only for those financial instruments for which a reliable estimate of fair value can be obtained. Financial assets and liabilities which are designated at fair value through profit or loss, under the fair value option, include repurchase and reverse repurchase agreements, certain loans and loan commitments, debt and equity securities and structured note liabilities.

Branch does not hold any non-derivative Financial Instruments at Fair Value through Profit or Loss as of reporting date.

The Branch has classified forward foreign exchange contracts as derivatives at Fair Value through Profit or Loss as of reporting date.

Loan Commitments

Certain loan commitments will be classified as derivatives held for trading or designated at fair value through profit or loss under the fair value option. All other loan commitments remain off-balance sheet. Therefore, the Branch does not recognize and measure changes in fair value of these off-balance sheet loan commitments that result from changes in market interest rates or credit spreads. However, as specified in the discussion "Impairment of Loans and Provision for Off-Balance sheet positions", these off-balance sheet loan commitments are assessed for impairment individually and where appropriate, collectively.

Loans and Receivables

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

The Branch has classified cash and cash equivalents, balances with Central Bank, Placements with banks, Group balance receivables and loans and receivables to other customers as Loans and Receivables.

Financial Instruments Held-to-Maturity

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

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

Branch does not hold any Financial Instruments at Held-to-Maturity as of reporting date.

Financial Assets Classified as Available for Sale

Financial assets that are classified as AFS are initially recognized at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. The amortization of premiums and accretion of discount are recorded in net interest income. Financial assets classified as AFS are carried at fair value with the changes in fair value reported in other comprehensive income. For monetary financial assets classified as AFS (debt instruments), changes in carrying amounts relating to changes in foreign exchange rate are recognized in the profit or loss and other changes in carrying amount are recognized in other comprehensive income as indicated above. For financial assets classified as AFS that are nonmonetary items (equity instruments), the fair value gain or loss is recognized in other comprehensive income, which also includes any related foreign exchange component.

Equity investments classified as AFS are assessed for impairment if objective evidence demonstrates a significant or prolonged decline in the fair value of the investment below cost. In the case of debt securities classified as AFS, impairment is assessed based on the same criteria as for loans.

If there is evidence of impairment, any amounts previously recognized in other comprehensive income are recognized in the profit or loss for the period, reported in net gains (losses) on financial assets available for sale. This impairment loss for the period is determined as the difference between the acquisition cost (net of any principal repayments and amortization) and current fair value of the asset less any impairment loss on that investment previously recognized in the profit or loss.

When an AFS debt security is impaired, any subsequent decreases in fair value are recognized in the profit or loss as it is considered further impairment. Any subsequent increases are also recognized in the profit or loss until the asset is no longer considered impaired. When the fair value of the AFS debt security recovers to at least amortized cost it is no longer considered impaired and subsequent changes in fair value are reported in other comprehensive income.

Reversals of impairment losses on equity investments classified as AFS are not reversed through the profit or loss; increases in their fair value after impairment are recognized in other comprehensive income.

Realized gains and losses are reported in net gains (losses) on financial assets available for sale. Generally, the weighted average cost method is used to determine the cost of financial assets. Unrealized gains and losses recorded in other comprehensive income are transferred to profit or loss on disposal of an available for sale asset and reported in net gains (losses) on financial assets available for sale.

Critical Accounting Estimates – Because the assessment of objective evidence of impairment require significant management judgment and the estimate of impairment could change from period to period based upon future events that may or may not occur, the Branch considers the impairment of Financial Assets classified as Available for Sale to be a critical accounting estimate.

The Branch has Sri Lanka Government Securities and unquoted equity securities designated as available-for-sale.

Financial Liabilities

Except for derivative financial liabilities at fair value through profit or loss, other financial liabilities are measured at amortized cost using the effective interest method.

Financial liabilities are initially recognised at the fair value of consideration received less directly attributable transaction costs. Subsequent to initial recognition, financial liabilities are measured at amortised cost. The Branch does not have any non-derivative financial liabilities designated at fair value through profit or loss. Financial liabilities measured at amortised cost include deposits from customers, deposits from banks and debt securities issued and other borrowed funds.

Reclassification of Financial Assets

The Branch may reclassify certain financial assets out of the financial assets at fair value through profit or loss classification (trading assets) and the AFS classification into the loans or held-to-maturity classification. For assets to be reclassified there must be a clear change in management intent with respect to the assets since initial recognition and the financial asset must meet the definition of a loan or held-to-maturity investment at the reclassification date. Additionally, there must be an intent and ability to hold the asset for the foreseeable future at the reclassification date. For held-to-maturity investments there must be a positive intention and ability to hold the asset until maturity.

Financial assets are reclassified at their fair value at the reclassification date. Any gain or loss already recognized in the profit or loss is not reversed. The fair value of the instrument at reclassification date becomes the new amortized cost of the instrument. The expected cash flows on the financial instruments are estimated at the reclassification date and these estimates are used to calculate a new effective interest rate for the instruments. If there is a subsequent increase in expected future cash flows on reclassified assets as a result of increased recoverability, the effect of that increase is recognized as an adjustment to the effective interest rate from the date of the change in estimate rather than as an adjustment to the carrying amount of the asset at the date of the change in estimate. If there is a subsequent decrease in expected future cash flows the asset would be assessed for impairment as discussed in the section entitled "Impairment of Loans and Provision for Off- Balance Sheet Positions". Any changes in the timing of the cash flows of reclassified assets which are not deemed impaired are recorded as an adjustment to the carrying amount of the asset.

For instruments reclassified from AFS to loans or held-to-maturity, any unrealized gain or loss recognized in other comprehensive income is subsequently amortized into interest income using the effective interest rate of the instrument. If the instrument is subsequently impaired, any unrealized loss which is held in accumulated other comprehensive income for that instrument at that date is immediately recognized in the profit or loss.

To the extent that assets categorized as loans are repaid, restructured or eventually sold and the amount received is less than the carrying value at that time, then a loss would be recognized in the profit or loss as a component of the provision for credit losses, if the loan is impaired, or otherwise in other Income, if the loan is not impaired.

As at the reporting date, the Branch has not made any such reclassification of financial assets.

Offsetting of Financial Instruments

Financial assets and liabilities are offset, with the net amount presented in the Balance Sheet, only if the Branch holds a currently enforceable legal right to set off the recognized amounts and there is an intention to settle on a net basis or to realize an asset and settle the liability simultaneously. The legal right to set off the recognized amounts must be enforceable in both the normal course of business and in the event of default, insolvency or bankruptcy of both the Branch and its counterparty. In all other situations they are presented gross. When financial assets and financial liabilities are offset in the Balance Sheet, the associated income and expense items will also be offset in the profit or loss, unless specifically prohibited by an applicable accounting standard.

Determination of Fair Value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an arm's length transaction (orderly transaction) between market participants at the measurement date. The fair value of instruments that are quoted in active markets is determined using the quoted prices where they represent those at which regularly and recently occurring transactions take place. The Branch measures certain portfolios of financial assets and financial liabilities on the basis of their net risk exposures when the following criteria are met:
– The group of financial assets and liabilities is managed on the basis of its net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty, in accordance with a documented risk management strategy,
– the fair values are provided to key management personnel, and
– the financial assets and liabilities are measured at fair value through profit or loss.
This portfolio valuation approach is consistent with how the Branch manages its net exposures to market and counterparty credit risks.

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

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

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

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

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

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.

Recognition of Trade Date Profit

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

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

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

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

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.

Impairment of Loans and Provision for Off-Balance Sheet Positions

The Branch first assesses whether objective evidence of impairment exists individually for loans that are individually significant. It then assesses collectively for loans that are not individually significant and loans which are significant but for which there is no objective evidence of impairment under the individual assessment.

To allow management to determine whether a loss event has occurred on an individual basis, all significant counterparty relationships are reviewed periodically. This evaluation considers current information and events related to the counterparty, such as the counterparty experiencing significant financial difficulty or a breach of contract, for example, default or delinquency in interest or principal payments.

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

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

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

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

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

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

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

The process to determine the provision for off-balance sheet positions is similar to the methodology used for loans. Any loss amounts are recognized as an allowance in the Balance Sheet within provisions and charged to the profit or loss as a component of the impairment on loan losses.

If in a subsequent period the amount of a previously recognized impairment loss decreases and the decrease is due to an event occurring after the impairment was recognized, the impairment loss is reversed by reducing the allowance account accordingly. Such reversal is recognized in profit or loss.

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

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

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

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

Financial Asset Derecognition

A financial asset is considered for derecognition when the contractual rights to the cash flows from the financial asset expire, or the Branch has either transferred the contractual right to receive the cash flows from that asset, or has assumed an obligation to pay those cash flows to one or more recipients, subject to certain criteria.

The Branch derecognizes a transferred financial asset if it transfers substantially all the risks and rewards of ownership.

The Branch enters into transactions in which it transfers previously recognized financial assets but retains substantially all the associated risks and rewards of those assets; for example, a sale to a third party in which the Branch enters into a concurrent total return swap with the same counterparty. These types of transactions are accounted for as secured financing transactions.

In transactions in which substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, the Branch derecognizes the transferred asset if control over that asset is not retained, i.e., if the transferee has the practical ability to sell the transferred asset. The rights and obligations retained in the transfer are recognized separately as assets and liabilities, as appropriate. If control over the asset is retained, the Branch continues to recognize the asset to the extent of its continuing involvement, which is determined by the extent to which it remains exposed to changes in the value of the transferred asset.

The derecognition criteria are also applied to the transfer of part of an asset, rather than the asset as a whole, or to a group of similar financial assets in their entirety, when applicable. If transferring a part of an asset, such part must be a specifically identified cash flow, a fully proportionate share of the asset, or a fully proportionate share of a specifically-identified cash flow.

If an existing financial asset is replaced by another asset from the same counterparty on substantially different terms, or if the terms of the financial asset are substantially modified (due to forbearance measures or otherwise), the existing financial asset is derecognized and a new asset is recognized. Any difference between the respective carrying amounts is recognized in the profit or loss.

Derecognition of Financial Liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. If an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of the existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the profit or loss.

Impairment of non-financial assets

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

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

Impairment losses are recognised in profit or loss.

3.7 Property, plant and equipment

3.7.1 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.

3.7.2 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.

3.7.3 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:

Computer equipment	20% - 33 1/3%
Office equipment, furniture & fittings, fixtures	20 %
Safes	5% -20%
Telephone/Tele printer, Air-conditioners	12.5% - 20%
Others	10% -33 1/3%

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.

3.8 Valuation of Immovable Property kept as collateral on staff loans

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

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

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

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

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

LIABILITIES AND PROVISIONS

3.9 Deposits and subordinated liabilities

Deposits and subordinated liabilities are the Branch's sources of debt funding.

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

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

3.10 Repurchase Agreements

Securities purchased under resale agreements ("reverse repurchase agreements") and securities sold under agreements to repurchase ("repurchase agreements") are treated as collateralized financings and are recognized initially at fair value, being the amount of cash disbursed and received, respectively. The party disbursing the cash takes possession of the securities serving as collateral for the financing and having a market value equal to, or in excess of the principal amount loaned. The securities received under reverse repurchase agreements and securities delivered under repurchase agreements are not recognized on, or derecognized from, the financial position, unless the risks and rewards of ownership are obtained or relinquished.

Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements is reported as interest income and interest expense, respectively.

3.11 Provisions

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

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

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

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

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

3.12 Financial guarantees

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

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

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

3.13 Employee benefits

3.13.1 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.

3.13.2 Defined contribution plans

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

3.13.3 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.

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)

The Branch aims to ensure that the alignment of Variable Compensation (VC) to the sustainable performance of the Group increases with the level of responsibility and the overall amount of compensation awarded. In this context, it continues to believe that the use of share or share-based instruments for remuneration is an effective way to align compensation with the Branch's long term performance and the interests of shareholders.

The Branch therefore delivers a portion of VC in equity instruments, based on defined criteria, including the employee's compensation level. 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 during the Branch's annual compensation process in March. The award, originally denominated in local currency, is converted into a number of DB Share Units with reference to the exchange rate and DB share price, as determined by the Branch. Valuation of shares is conducted on a centralized basis at the Group level. Branch is advised on the apportionment. This amount is charged to the profit or loss as an expense.

3.14 Commitments and Contingencies

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

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

INCOME AND EXPENDITURE

3.15 Interest income / expense

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

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

3.16 Fee and Commission income / expense

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

3.17 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.

3.18 Net trading income

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

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

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

3.20 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.

3.21 Lease payments

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

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

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, 2017.

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

Of the above, only Corporate & Investment Banking (CIB) business is represented in Sri Lanka as at 31st December 2017.

Corporate & Investment Banking (CIB)

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

Global Transaction Banking (GTB)

Main product offerings: Corporate Cash Management, Trade Finance, Securities Services and GTB FX. Global Transaction Banking (GTB) is a leading global provider of cash management, trade finance and securities services, delivering the full range of commercial banking products and services for both corporates and institutions worldwide.

Corporate Cash Management (CCM)

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

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

Trade Finance (TF)

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

Securities Services (SeS)

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

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

GTB FX

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

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

Global Capital Markets (GCM)

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

4. New Accounting Standards issued but not yet effective

A number of new standards and amendments to standards which have been issued but not yet effective as at the Reporting date have not been applied in preparing these financial statements. Accordingly, the following Accounting Standards have not been applied in preparing these Financial Statements.

SLFRS 9 - Financial Instruments

SLFRS 9, issued in 2014, replaces the existing guidance in LKAS 39 Financial Instruments: Recognition and Measurement. SLFRS 9 introduces new requirements on how an entity should classify and measure financial assets, requires changes to the reporting of 'own credit' with respect to issued debt liabilities that are designated at fair value, replaces the current rules for impairment of financial assets and amends the requirements for hedge accounting. The standard also requires entities to provide users of financial statements with more informative and relevant disclosures. SLFRS 9 is effective for annual periods beginning on or after January 1, 2018.

The Branch estimates the adoption of SLFRS 9 will lead to an increase in the Branch's total regulatory capital by LKR 37 million on the Financial Statements for the year ended December 31, 2017. This translates to an increase in the Branch's CET I capital adequacy ratio of 18 bps (yet to be audited).

Implementation program

The Group has run a centrally managed SLFRS 9 program sponsored by the Group's chief financial officer which has included business functions and subject matter experts on methodology, data sourcing and modelling, IT processing and reporting. The Group's implementation of SLFRS 9 has covered performing an assessment of the population of financial instruments impacted by the classification and measurement requirements of SLFRS 9 and developing an impairment methodology to support the calculation of the Expected Credit Loss allowance. The Group commenced in 2015 the development of an approach for reviewing business models and methodology for testing the Solely Payments of Principal and Interest criteria of SLFRS 9. Concurrently, the Group also developed its approach for assessing significant increase in credit risk, incorporating forward looking information, including macro-economic factors (implemented in 2017), preparing the required IT systems and process architecture, as well as development of a related SLFRS 9 governance and control framework. The Group has performed a final parallel run based on December 31, 2017 data.

Overall governance of the program's implementation has been through the Group's SLFRS 9 Steering Committee and includes representation from Finance, Risk and IT. Guidance and training on SLFRS 9 across the Group have been delivered across businesses and functions as part of the Group's control process and implementation program. The Group enhanced its governance environment to ensure an updated framework for classification and measurement, and impairment by implementing appropriate validations and controls over new key processes and significant areas of judgment. The specific process and business controls under this updated framework are being incorporated and finalized. Governance over the Expected Credit Loss calculation process is shared across Risk and Finance functions.

SLFRS 15 - Revenue from Contracts with Customers

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including LKAS 18 on Revenue, and LKAS 11 on Construction Contracts. SLFRS 15 is effective for annual reporting periods beginning on or after January 01, 2018.

No significant impact is expected by applying this standard.

SLFRS 16 - Leases

SLFRS 16 is effective from annual reporting period beginning on or after 01 January 2019. Early adoption is permitted for entities that adopt SLFRS 15. SLFRS 16 supersedes LKAS 17 – Leases, IFRIC 4 – determining whether an arrangement contains leases, SIC 15 – operating leases incentives, SIC 27 – evaluating the substance of transaction involving the legal form a lease.

The Branch is currently assessing the potential impact on its financial statements resulting from the application of SLFRS.

For the year ended 31st December	2017 Rs.	2016 Rs.
5. Net Interest Income		
Interest Income		
Placements with banks	**366,670,713**	420,650,379
Financial assets held-for-trading	**-**	1,018,636,437
Loans and receivables to other customers	**860,934,847**	595,785,322
Financial investments - Available-for-sale	**1,382,321,818**	678,453,367
	2,609,927,378	2,713,525,505
Interest expenses		
Due to banks	**(279,414,806)**	(123,880,156)
Due to other customers	**(283,658,605)**	(279,725,745)
Treasury bills, treasury bonds and other money market instruments	**-**	(10,091,077)
	(563,073,411)	(413,696,978)
Net Interest Income	**2,046,853,967**	2,299,828,527

Since April 1,2002, net interest income from treasury bills and treasury bonds has been grossed up by adding the notional tax credit, consequent to the interest income on treasury bill and treasury bonds being subjected to withholding tax as detailed in Note 14.3.

	2017 Rs.	2016 Rs.
6. Net Fee and Commission Income		
Fee and Commission Income		
Guarantees	**42,112,993**	37,683,820
Trade and remittances	**110,552,100**	94,395,586
Other Banking Services	**492,413,423**	524,272,518
	645,078,516	656,351,924
Fee and Commission Expense	**(22,277,740)**	(22,535,244)
	622,800,776	633,816,680
7. Net Trading Income		
Foreign Exchange Income		
From banks	**723,230,640**	152,350,450
From others customers	**(72,322,352)**	178,622,015
Unrealized Forward Exchange Loss	**(21,937,315)**	(11,013,408)
Realized AFS Loss	**(4,827,828)**	-
	624,143,145	319,959,057
Realized loss from treasury bills/bonds -AFS	-	(6,136,275)
Capital loss from treasury bills/bonds -FVTPL	-	(47,571,249)
	-	(53,707,524)
	624,143,145	266,251,533
8. Other Operating Income		
Dividend Income	**2,171,250**	855,000
Intergroup recoveries	**10,766,906**	58,973,245
Other Income	-	33,244,000
Cost recoveries from customers	**11,125,719**	10,595,585
	24,063,875	103,667,830

For the year ended 31st December

	2017 Rs.	2016 Rs.
9. (Charge) / Reversal for Impairment on Loan Losses		
Loans and Receivables -To other customers		
Reversal/(Charge) of Allowances for collective impairments (Note 20.1.1)	16,370,174	(7,187,035)
(Charge) of off Balance Sheet collective impairments (Note 29.1)	(19,281,341)	(516,462)
Country Risk Adjustment	1,892,355	(4,361,735)
	(1,018,812)	(12,065,232)

	2017 Rs.	2016 Rs.
10. Personnel Expenses		
Salary and bonus	231,861,523	199,250,042
Contribution to defined contribution plans	49,998,601	59,239,076
Contribution to defined benefit plans	18,079,345	17,184,963
Other allowances and staff related expenses	93,406,518	142,560,145
	393,345,987	418,234,226

	2017 Rs.	2016 Rs.
11. Other Expenses		
Auditors' remunerations	900,000	859,976
Audit related expenses	650,000	650,023
Non-audit fees to auditors	549,015	318,241
Professional and legal expenses	3,659,822	4,205,070
Depreciation of property, plant and equipment	27,091,040	36,969,273
Head office Expenses	676,903,693	648,782,464
Office administration and establishment expenses	455,178,179	425,577,591
Income tax penalty (Note 36.d)	209,175,157	-
Normal NBT related to non banking	9,472,343	-
Crop Insurance Levy (Note 11.1)	7,839,663	9,920,118
	1,391,418,912	1,127,282,756

	2017 Rs.	2016 Rs.
11.1 Crop Insurance Levy		
Crop Insurance for the year	7,741,444	11,593,509
Under/(Over) Provision related to previous year	98,219	(673,391)
	7,839,663	10,920,118

12. Operating Profit before Value Added Tax and Nation Building Tax

Operating Profit before Value Added Tax and Nation Building Tax is stated after charging all the expenses including the following:

	2017 Rs.	2016 Rs.
Auditors Remuneration		
Statutory audit	900,000	859,976
Audit related services	650,000	650,023
Non audit services	549,015	318,241
Depreciation	27,091,040	36,969,273
Personnel Cost	393,345,987	418,234,226
Professional and legal expenses	3,659,822	4,205,070

	2017 Rs.	2016 Rs.
13. Value Added Tax and Nation Building Tax on Financial Services		
Value Added Tax	252,120,838	179,520,835
Nation Building Tax	33,530,078	25,359,049
	285,650,916	204,879,884

	2017 Rs.	2016 Rs.
14. Income Tax Expenses		
Current tax charge for the year	564,154,223	518,777,880
Adjustment in respect of prior years	(75,077,925)	(26,446,033)
Provision for assessment 2014/2015 (Note 36.d)	281,810,855	-
	770,887,153	492,331,847
Deferred Tax Expense		
Deferred tax expenses recognised in profit or loss (Note 23)	9,407,543	(13,797,712)
	780,294,696	478,534,135

14.1 In terms of provisions of Inland Revenue Act No.10 of 2006 and amendments thereto, the bank is liable from banking operations at the rate as below

	2017	2016
Domestic Banking Unit	28%	28%
Foreign Currency Banking Unit		
On- shore operations	28%	28%
Off- shore operations	28%	28%

14.2 Reconciliation of Accounting Profit and Taxable Profit

	2017 Rs.	2016 Rs.
Profit before income tax	1,246,427,136	1,541,102,472
Income tax for the period (Accounting profit @ applicable tax rate 28 %)	348,999,598	431,508,692
Tax effect of exempt income	(87,601,473)	(32,831,458)
Tax effect of expenses that are not deductible for tax purpose	402,026,465	141,328,738
Tax effect of expenses that are deductable for tax purpose	(99,270,367)	(21,228,092)
Tax expense for the period	564,154,223	518,777,880

14.3 Notional tax credit for withholding Tax on Government Securities on secondary market transaction

In terms of the Inland Revenue Act No 10 of 2006, interest derived from the secondary market transactions in Government Securities (on or after April 1, 2002) would be entitled to a notional tax credit (being 1/9 of the net interest income) provided such interest income form part of statutory income for that year of assessment.

Accordingly, the net income earned by the Bank from the secondary market transaction in Government Securities for the year, has been grossed up in the Financial Statements amounting to Rs.1,071,630,604/- (2016: Rs.1,495,607,304/-) and the resulting notional tax credit amounted to Rs.107,163,060/- (2016: Rs 149,560,730/-).

As at 31st December	2017	2016
	Rs.	Rs.

15. Cash and Cash Equivalents

	2017 Rs.	2016 Rs.
Cash in hand	**151,005,509**	167,615,471
Balances with banks	**27,372,986**	26,157,877
	178,378,495	193,773,348

16. Balances with Central Bank

	2017 Rs.	2016 Rs.
Statutory balances with Central Bank of Sri Lanka (Note 16.1)	**649,920,855**	702,355,550
Non -Statutory balances with Central Bank of Sri Lanka	-	825,317,307
Standing deposit facility		
	649,920,855	1,527,672,857

16.1 This represents Statutory Reserve Requirement to be maintained with Central Bank of Sri Lanka under section 93 of the Monitory Act Chapter 422. At present, the minimum cash requirement is 7.5 % of the Rupee Deposit Liabilities. There is no reserve requirement on deposit liabilities of the foreign currency deposit liabilities of the foreign currency banking unit (FCBU) and foreign currency deposit liabilities of the Domestic Banking unit (DBU).

17. Placement with Banks

	2017 Rs.	2016 Rs.
Placements with local banks in local currency	**3,165,118,777**	2,876,324,685
	3,165,118,777	2,876,324,685

18. Derivative Financial Instruments

	2017 Rs.	2016 Rs.
Forward foreign exchange contracts	**3,178,675**	56,140,231
	3,178,675	56,140,231

19. Group Balances Receivable

	2017 Rs.	2016 Rs.
Branches (Branches of Deutsche Bank AG-Frankfurt)	**604,788,580**	1,689,674,031
Subsidiaries (Subsidiaries of Deutsche Bank AG-Frankfurt)	**1,318,469,707**	2,056,207,625
Placement with foreign branches in foreign currency	**1,150,637,140**	-
Inter-group receivable from branches and subsidiaries of Head Office	**34,547,757**	111,261,312
	3,108,443,184	3,857,142,968

As at 31st December	2017	2016
	Rs.	Rs.

20. Loans and Receivables to Other Customers

20.1 Loans and Receivables by product, Net of Impirment

Loans and Receivables to customers at amortised cost		
Overdrafts	**6,749,659,940**	5,059,966,999
Trade finance	**1,607,711,005**	3,345,110,473
Staff loans	**175,620,493**	141,176,851
Supplier Finance	**1,046,704,649**	2,024,304,580
	9,579,696,087	10,570,558,903
Collective allowances for impairment (Note 20.1.1)	**(55,639,268)**	(71,397,808)
	9,524,056,819	10,499,161,095

20.1.1 Allowance for impairment

Collective allowances for impairment		
Balance as at 01st January	**71,397,808**	60,074,890
Impact on fluctuations in exchange rates	**611,634**	4,135,883
Impairment (reversal) / loss for the year	**(16,370,174)**	7,187,035
Balance as at 31st December	**55,639,268**	71,397,808

20.2 Concentration of credit risk

Sector wise analysis for Bank's credit portfolio (Loans and advances) given below reflects the Bank's exposure to credit risk in the various sectors of the economy.

Agriculture	**1,271,898,951**	979,292,628
Financial and Business Services	**10,003**	50,205
Manufacturing	**3,839,840,334**	2,876,836,476
Tourism	**963,768,232**	1,050,628,301
Construction	**99,225,663**	88,135,944
Traders	**1,476,955,437**	2,869,065,172
New economy	**1,650,798,324**	2,639,203,652
Transport	**200,795,481**	14,305,769
Others	**76,403,662**	53,040,756
	9,579,696,087	10,570,558,903

20.3 Exposure to currency risk

Sri Lankan Rupee	**6,439,484,418**	6,646,031,938
United States Dollar	**3,030,632,680**	3,921,082,861
Euro	**109,578,989**	3,444,104
	9,579,696,087	10,570,558,903

As at 31st December	2017 Rs.	2016 Rs.
21. Financial Investments-Available for Sale		
Sri Lanka Government Securities (Note 21.1)	**16,262,962,000**	18,473,191,127
Investment in unquoted shares (Note 21.2)	**1,600,000**	1,600,000
	16,264,562,000	18,474,791,127
21.1 Sri Lanka Government Securities		
- Treasury Bill	**7,592,190,000**	14,885,062,008
- Treasury Bond	**1,000,772,000**	1,348,601,400
- Development Bond	**7,670,000,000**	2,239,527,719
	16,262,962,000	18,473,191,127
21.2 Investment in Unquoted Shares		
Credit Information Bureau of Sri Lanka - 100 Ordinary shares of Rs.1,000/- each	**100,000**	100,000
Lanka Clear (Private) Limited - 150,000 Ordinary shares of Rs. 10/- each	**1,500,000**	1,500,000
	1,600,000	1,600,000

22. Property, Plant and Equipment

Refer next page

	2017 Rs.	2016 Rs.
23. Deferred Tax Assets		
Balance as at 01st January	**31,967,386**	21,483,378
(Reversal)/Origination during the year (Note 23.1)	**(14,718,182)**	10,484,008
Balance as at 31st December	**17,249,204**	31,967,386
23.1 (Reversal)/Origination of Deferred tax		
Deferred tax expenses recognised in Profit or Loss	**9,407,543**	(13,797,712)
Deferred tax expenses recognised in Other Comprehensive Income	**5,310,639**	3,313,704
	14,718,182	(10,484,008)
23.2 Recognized Deferred Tax Assets		
Deferred tax assets and liabilities are attributable to the following:		
Property, plant and equipment	**(8,248,322)**	(8,992,752)
AFS Assets	**(4,652,980)**	(4,320,469)
Employee benefits	**29,161,428**	30,796,316
Others	**989,078**	14,484,291
	17,249,204	31,967,386
24. Other Assets		
Deposits and prepayments	**63,062,741**	103,654,862
Interest receivables	**118,602,818**	97,078,887
Clearing account balance	**799,480,680**	1,843,007,603
Others	**28,336,785**	9,813,810
	1,009,483,024	2,053,555,162
25. Due to Banks		
Borrowings	**714,546,575**	-
	714,546,575	-
26. Derivatives Financial Instruments		
Forward foreign exchange contracts	**4,265,960**	35,286,013
	4,265,960	35,286,013

As at 31st December

22. Property, plant & equipment

	Computer Equipment Rs.	EDP Main Frame Rs.	Safes Rs.	Paintings & Art Objects Rs.	Telephone & Telex Rs.	Office Equipment Rs.	Furniture & Fittings Rs.	Total 2017 Rs.	Total 2016 Rs.
Cost									
As at 01st January	62,433,713	100,700,080	1,876,527	744,000	31,754,501	25,201,692	115,797,330	338,507,843	319,014,890
Additions	5,135,345	-	-	-	9,364,149	580,201	552,699	15,632,394	29,619,018
Assets written off	(2,826,540)	-	-	-	-	(194,476)	-	(3,021,016)	(10,126,065)
As at 31st December	64,742,518	100,700,080	1,876,527	744,000	41,118,650	25,587,417	116,350,029	351,119,221	338,507,843
Accumulated Depreciation									
As at 01st January	54,873,439	63,297,813	1,858,557	743,996	24,655,054	20,199,846	96,644,969	262,273,674	235,430,450
Charge for the year	5,446,794	12,348,727	17,948	-	3,001,789	2,132,217	4,143,565	27,091,040	36,969,272
Depreciation on written off assets	(2,826,520)	-	-	-	-	(194,474)	-	(3,020,994)	(10,126,048)
As at 31st December	57,493,713	75,646,540	1,876,505	743,996	27,656,843	22,137,589	100,788,534	286,343,720	262,273,674
Carrying Amount									
As at 31st December 2017	**7,248,805**	**25,053,540**	**22**	**4**	**13,461,807**	**3,449,828**	**15,561,495**	**64,775,501**	
As at 31st December 2016	7,560,274	37,402,267	17,970	4	7,099,447	5,001,846	19,152,361		76,234,169

The cost of fully depreciated assets which are still in use is Rs.209,334,193/- (2016 -Rs.195,752,475/-) as at reporting date

As at 31st December	2017	2016
	Rs.	Rs.
27. Due to Other Customers		
Due to Other Customers	**11,560,749,665**	12,800,170,018
	11,560,749,665	12,800,170,018
27.1 Analysis by product		
Demand deposits (current accounts)	**7,489,774,397**	8,139,566,488
Savings deposits	**1,788,848,902**	2,601,758,522
Margin Deposits	**377,859,000**	28,524,499
Fixed and Other deposits	**1,904,267,366**	2,030,320,509
	11,560,749,665	12,800,170,018
27.2 Analysis by currency		
Sri Lanka Rupee	**8,006,213,157**	9,335,561,576
United States Dollar	**2,987,918,411**	3,228,693,666
Great Britain Pound	**19,527,813**	63,652,083
Euro	**531,297,577**	160,445,393
Swiss Frank	**11,308,826**	8,265,999
Others	**4,483,881**	3,551,301
	11,560,749,665	12,800,170,018
28. Employee Benefits		
Retirement Benefit Obligation - Gratuity		
Balance as at 01st January	**109,986,844**	111,155,552
Actuarial valuation adjustment (Note 28.1)	**300,318**	26,916,829
Payments during the year	**(6,139,204)**	(28,085,537)
Balance as at 31st December	**104,147,958**	109,986,844
Current service cost	**5,980,792**	6,625,186
Interest cost	**12,098,553**	10,559,777
	18,079,345	17,184,963
28.1 Acturial loss recognised in Statement of Profit or loss and other Comprehensive income		
Actuarial (Gain) / loss	**(17,779,027)**	9,731,866
Total	**300,318**	26,916,829

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 2017 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 2017.

	2017	2016
Discount Rate %	**12%**	11.0%
Future salary increment rate %	**8%**	10%

28.2 Sensitivity Ananlysis-Employee Benefits

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

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

	2017	2016
29. Other Liabilities		
Accrued expenditure	**33,714,366**	63,232,819
Tax penalty provision	**209,175,157**	-
Impairment charges in respect of off-balance (Note 29.1)	**38,382,610**	18,888,303
Country Risk (Note 29.2)	**2,565,510**	4,457,865
Staff EPF reserve	**30,239,615**	41,031,213
Other taxes & payables	**91,798,406**	101,485,483
	405,875,664	229,095,683
29.1 Allowance for off-balance sheet, which consists of contingent liabilities and lending commitments		
Balance as at 01st January	**18,888,303**	17,605,639
Impact on exchange rate change	**212,967**	766,202
Write back or charge to income statement	**19,281,340**	516,462
Balance as at 31st December	**38,382,610**	18,888,303
29.2 Provision for country risk		
Balance as at 01st January	**4,457,865**	96,130
Write back or charge to income statement	**(1,892,355)**	4,361,735
Balance as at 31st December	**2,565,510**	4,457,865

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

As at 31st December	2017 Rs.	2016 Rs.
30. Group Balances Payable		
Inter entity expense payabale to Group	**1,327,563,866**	660,003,679
Borrowing from Head Office and Branches	**7,905,931,041**	11,211,163,905
Subsidiaries (Subsidiaries of Deutsche Bank AG - Frankfurt)	**-**	34,730
Branches (Branches of Deutsche Bank AG-Frankfurt)	**11,270,862**	7,372,159
	9,244,765,769	11,878,574,473

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

	2017 Rs.	2016 Rs.
31. Subordinated Term Debt		
Approved subordinated term debt	-	1,366,654,264
	-	1,366,654,264

With the prior approval of the Central Bank of Sri Lanka EUR 8,666,041.86 was borrowed from Deutsche Private Geschaftskunden on 31st October 2007, for a period of 10years. The rate at which interest has been paid from January to October 2017 was 1.29% . This loan matured in 2017, and was fully settled.

	2017 Rs.	2016 Rs.
32. Assigned Capital		
Balance as at 01st January	**4,410,461,270**	4,410,461,270
Balance as at 31st December	**4,410,461,270**	4,410,461,270
33. Statutory Reserve Fund		
Balance as at 01st January	**595,653,499**	542,875,429
Transfer during the year	**23,946,667**	52,778,070
Balance as at 31st December	**619,600,166**	595,653,499

The Statutory Reserve Fund is maintained as required by the Section 20 (1) of the Banking Act No. 30 of 1988. A sum equivalent to 5 % of the profit after tax, but before any profits transferred elsewhere, should be transferred to above reserve until the reserve equal to 50% of the assigned capital of the bank and thereafter a further sum equivalent to 2% of such profit until the amount of the said reserve fund is equal to the assigned capital of the Branch. The balance in the statutory reserve fund will be used only for the purpose specified in the Section 20(2) of the Banking Act No.30 of 1988.

	2017 Rs.	2016 Rs.
34. Retained Earnings		
Balance as at 01st January	**3,756,059,097**	3,653,073,275
Profit for the year	**466,132,440**	1,062,568,337
Net acturial gain/(loss) on defined benefit plan	**17,779,027**	(9,731,866)
Tax on other comprehensive income	**(4,978,128)**	2,724,922
Transfers to other reserves	**(23,946,667)**	(52,778,070)
Profits transfer to Head Office (Note 34.1)	**(2,058,438,641)**	(899,797,501)
Balance as at 31st December	**2,152,607,128**	3,756,059,097

34.1 Profit transfer to Head Office
The retained profit for the year ended 31st December 2014 and 2015, has been transferred to Head Office in 2017, after obtaining approval from the Central Bank of Sri Lanka and the Department of Inland Revenue.

As at 31st December

35. Other Reserves

35.1 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.

35.2 Exchange Equalisation of Reserve

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

35.3 Reserve through Contributed Assets

As explained in Note 30.1 This is the un remittable head office expenses reported upto end of financial year 2011and 2015, converted to equity during the financial year 2013 and 2016 with the prior written approval of Central Bank of Sri Lanka.

35.4 (a) Other Reserves - Bank - 2017

	Balance as at 01st January	Movement	Balance as at 31st December
Available-for-sale reserve	(4,827,828)	16,792,691	**11,964,863**
Exchange equalisation of capital (Note 35.1)	282,583,011	26,823,764	**309,406,775**
Exchange equalisation of reserve (Note 35.2)	165,617,101	(42,653,624)	**122,963,477**
Reserve through Contributed Assets (Note 35.3)	3,743,212,907	-	**3,743,212,907**
	4,186,585,191	**962,831**	**4,187,548,022**

35.4 (b) Other Reserves - Bank - 2016

	Balance as at 01st January	Movement	Balance as at 31st December
Available-for-sale reserve	(4,418,119)	(409,709)	**(4,827,828)**
Exchange equalisation of capital (Note 35.1)	242,709,848	39,873,163	**282,583,011**
Exchange equalisation of reserve (Note 35.2)	153,301,816	12,315,285	**165,617,101**
Reserve through Contributed Assets (Note 35.3)	1,780,876,243	1,962,336,664	**3,743,212,907**
	2,172,469,788	**2,014,115,403**	**4,186,585,191**

As at 31st December

36. Contingent Liabilities and Commitments

36. (a) In the normal course of business, the branch makes various commitments and incurs certain contingent liabilities with legal recourse to its customers.

	2017	2016
	Rs.	Rs.
Commitments		
Guarantees	**7,830,305,505**	6,885,070,338
Letters of credit	**3,082,335,312**	2,991,838,746
Forward exchange contract (net)	**(234,341)**	(90,506,207)
Usance Import bill	**1,355,304,085**	706,257,637
Core Acceptence	**708,022,486**	529,066,866
Other commitments	**46,000,740**	150,430,558
Undrawn loan commitments	**17,896,826,643**	14,512,102,506
	30,918,560,430	25,684,260,444

36. (b) Capital expenditure commitments
There were no material capital commitments as at the reporting date.

36. (c) Litigations against the Branch
There were no pending litigation of material nature against the Bank.

36. (d) Tax Assessment

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

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

	2017	2016
Current Tax Liability (Note 14)	**281,810,855**	-
Other Liability (Note 29)	**209,175,157**	-
	490,986,012	-

37. Related party transactions

37.1 Transactions and Balances with Group entities

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

37.1.1 Transactions with Deutsche Bank Group

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

Amount receivable and payable from/to Group entities disclosed in Notes 19 and 30.

37.1.1.a Subordinate Term Debt

With the prior approval of the Central Bank of Sri Lanka EUR 8,666,041.86 was borrowed from Deutsche Private Geschaftskunden on 31st October 2007, for a period of 10years. The rate at which interest has been paid from January to October 2017 was 1.404 % . This loan was fully settled during the year as per the terms.(Note 37.1.1.a)

37.1.2 Transactions with Provident Fund

For the year ended 31st December,

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

Name of the related party	Relationship	Nature of Transaction	Value of the Transaction (Rs.) 2017	2016
Deutsche Bank AG Colombo Branch Employees' Provident fund.	Post employment contribution plan for the benefit of employees of the Deutsche Bank AG Colombo.	Payments incurred on behalf of Deutsche Bank AG Colombo Employees' Provident fund.	**171,000**	171,000
		Banks' Contribution/(Transfer) to Reserve Account	**(2,480,534)**	4,620,495
		Purchasing of Treasury bill by Deutsche Bank AG Colombo on behalf of Deutsche Bank AG Colombo Employees' Provident fund.	**912,873,990**	561,605,450

Balances with the Deutsche Bank Group

	Balances with the Employee's providend fund		2017	2016
			Rs.	Rs.
Deutsche Bank AG Colombo Branch Employees' Provident	Post employment contribution plan for the benefit of employees of the Deutsche Bank	Cash held in Saving Account	**25,423,128**	21,026,615

As at 31st December

37. Related party transactions (cont.)

37.2 Transactions with Key Management Personnel

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

The members of the Executive Committees of Deutsche Bank AG and their immediate family members have been classified as KMP of the branch as at 31st December 2017.

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

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

	2017 Rs.	2016 Rs.
Compensation to KMP	**148,497,178**	197,663,720
Short term employee benefits	**Nil**	Nil
Post employment benefits	**Nil**	181,106,723
Termination benefits	**1,564,790**	1,514,697
Share based payments	**69,628,333**	42,537,584
Lending facilities granted to KMP	**Nil**	Nil

As at 31st December	2017 Rs.	2016 Rs.
38. Non- Cash items included in Profit Before Tax		
Depreciation of property, plant and equipment	**27,091,040**	36,969,272
Write off of Assets	**22**	17
(Reversal)/ charge of Impairment losses on loans and advances	**(16,370,174)**	7,187,035
Off balance sheet impairment	**19,281,341**	516,462
Charge for defined benefit plans	**18,079,345**	17,184,963
Provision for tax penalty	**209,175,157**	-
Head office Expense	**676,903,693**	648,782,464
Notional tax grossed under interest income	**(107,163,060)**	(149,560,730)
Provision for Country risk	**1,892,355**	4,361,735
Net Unrealized Forward Exchange Loss	**21,937,315**	11,013,408
	850,827,034	576,454,626
39. Change in Operating Assets		
Change in derivative financial instruments	**877,751,997**	1,620,198,083
Change in balance with Central Bank	**(288,794,092)**	(1,425,643,552)
Change in placement with banks	**-**	16,859,783,991
Change in other financial investment held for trading	**748,699,784**	2,481,506,761
Change in group balance receivable	**991,474,450**	(771,492,860)
Change in Loans and advances	**2,227,354,328**	(12,885,759,748)
Change in financial investment Available for sale	**1,044,072,138**	(453,194,843)
Change in other assets	**5,600,558,605**	5,425,397,832
40. Change in Operating Liabilities		
Change in due to banks	**714,546,575**	(628,021)
Change in deposits from banks, customers and debt securities issued	**(1,239,420,353)**	(4,278,496,191)
Change in other borrowings	**-**	(296,437,742)
Change in other liabilities	**(53,564,684)**	(21,898,159)
Change in due to Group balance	**(3,310,712,397)**	(1,867,808,055)
	(3,889,150,859)	(6,465,268,168)

41. Subsequent Events

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

42. Management Responsibility on Financial Statements

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

43. Disclosures required as per Central Bank of Sri Lanka, Bank Supervision Department Direction no. 2/17/900/001/04 dated 11th February 2013, "Preparation, Presentation and Publication of Annual Audited Accounts of Banks".

Risk exposures for each type of financial instrument and changes from prior period

In Rupees Thousand	As at 31st December 2017				As at 31st December 2016			
	Loans and Receivables	Held for Trading (HFT)	Available for Sale (AFS)	Total	Loans and Receivables	Held for Trading (HFT)	Available for Sale (AFS)	Total
Assets								
Cash and cash equivalents	178,378	-	-	178,378	193,773	-	-	193,773
Balances with central banks	649,921	-	-	649,921	1,527,673	-	-	1,527,673
Placements with banks	3,165,119	-	-	3,165,119	2,876,325	-	-	2,876,325
Group balances receivable	3,108,443	-	-	3,108,443	3,857,143	-	-	3,857,143
Derivative financial instruments	-	3,179	-	3,179	-	56,140	-	56,140
Other financial assets held-for-trading	-	-	-	-	-	-	-	-
Loans and receivables to other customers	9,524,057	-	-	9,524,057	10,499,161	-	-	10,499,161
Financial investments – Available-for-sale	-	-	16,264,562	16,264,562	-	-	18,474,791	18,474,791
Total financial assets	16,625,918	3,179	16,264,562	32,893,659	18,954,075	56,140	18,474,791	37,485,006
	Deposits at amortised cost	Held for Trading (HFT)		Total	Deposits at amortised cost	Held for Trading (HFT)		Total
Liabilities								
Due to Banks	714,547	-			-	-		-
Derivative financial instruments	-	4,265		4,265	-	35,286		35,286
Due to other customers	11,560,750	-		11,560,750	12,800,170	-		12,800,170
Other borrowings	-	-		-	-	-		-
Group balances payable	9,244,766	-		9,244,766	11,878,574	-		11,878,574
Subordinated term debt	-	-		-	1,366,654	-		1,366,654
Total financial liabilities	20,805,516	4,265		20,809,781	26,045,398	35,286		26,080,684

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

DB Colombo's risk management framework

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

The risk appetite expresses the aggregate level of risk that DB Colombo is willing to assume within its risk capacity to achieve strategic objectives and business plan as defined by a set of minimum quantitative and qualitative statements. Risk capacity is defined as the maximum level of risk DB Colombo can assume given the capital and liquidity base, risk management and control capabilities, and regulatory constraints. The thresholds for key risk appetite metrics are fully integrated into DB Colombo's risk management processes: the thresholds are considered in the planning process, and are subjected to stress testing. Threshold breaches, are subject to a dedicated governance framework triggering management actions. The risk identification and assessment process is performed annually or ad-hoc if required and results in a risk inventory. Subsequently, all material risks are measured as the basis of regulatory and internal capital demand quantification. DB Colombo distinguishes between pillar 1 regulatory models to quantify risk weighted assets (RWA) and pillar 2 internal models to quantify internal economic capital (EC) requirements. While RWAs only cover credit, market, and operational risk (OR), the internal EC model framework covers all material risks. As part of the planning process, long-term targets of DB Colombo are articulated, its business lines, for the next 5 years. These targets are defined in key performance indicators (KPI) which, besides others, also cover the key risk appetite metrics.

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

Risk Governance

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

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

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

Organizational set up of risk management

Executive Committee (ExCo)

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

For risk-related topics, the risk management committees directly established by the Branch are in particular the Executive Committee (ExCo), Operations Committee (OpCo), Asset and Liability Committee (ALCO)

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

Risk management by risk types

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

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

Risk identification & assessment
The primary purpose of the risk identification and assessment process is to identify and assess all risks that DB Colombo is exposed to according to their relevance and adequacy of the risk management framework in place. The underlying risk inventory is essentially structured into three key elements:
1. identification and assessment of all the risks;
2. approval of the risk inventory, and
3. embedding of these risks into the risk management practices.

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

Key risk Types

Credit Risk

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

The below dimensions are the key drivers for credit risk:

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

Market Risk

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

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

Liquidity Risk

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

Operational Risk

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

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

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

Interest Rate Risk in Banking book

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

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

Qualitative statements
DB Colombo's qualitative risk appetite is built on the following qualitative statements which are aligned with the statements applicable on DB Group level:
1. Risk is taken within a defined risk appetite, which is actively managed and monitored in a timely manner, in order to maintain a robust risk profile and capital adequacy.
2. Maintain stable funding and strategic liquidity to ensure that business is conducted within the liquidity risk appetite.
3. Avoid any undue concentrations within the portfolios considering multiple dimensions. e.g. counterparty, region/ country, industries, products/ asset classes and business lines.
4. Promote balanced risk adjusted performance and be fully responsible for accepting well compensated risks within risk appetite.
5. Ensure that any business activity is supported by appropriate processes and controls to minimize operational risk.
6. Minimize negative reputational, environmental and social impacts of business activities.

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

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

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

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

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

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

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

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

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

Risk measurement

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

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

The following principles define bank's internal risk measurement practice

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

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

Risk Reporting and Monitoring
DB Colombo's risk reporting is aligned throughout the organisation to support DB Colombo's risk management framework and in particular the risk management processes and activities. The DB Colombo Risk & Capital Profile Report is presented to the Executive Committee (ExCo) quarterly. It comprises an overview of the current profit and loss, risk, capital and liquidity status of DB Colombo, also incorporating information on regulatory capital and economic capital adequacy. Relevant stress testing results are also included in this report on a regular basis.
Senior DB Colombo risk/executive committees also receive supplemental regular reporting (as well as ad-hoc reporting as required), if deemed relevant by the CRO/Treasurer of DB Colombo or if required due to Group policies. Reporting as such includes but is not limited to
• The quarterly Risk & Capital Profile (RCP) report;
• The monthly standard MIS containing credit portfolio information
• The daily risk performance status report on market risk; and
• The ALCO report on capital, funding and liquidity of the bank, as well as liquidity stress testing (where relevant).

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

Mitigation of credit risk on counterparty level
In addition to determining counterparty credit quality and risk appetite, DB Colombo also uses various CR mitigation techniques to optimize credit exposure and reduce potential credit losses. CR mitigants are applied in the following forms:
• Comprehensive and enforceable credit documentation with adequate terms and conditions.
• Collateral held as security to reduce losses by increasing the recovery of obligations.
• Risk transfers, which shift the probability of default risk of an obligor to a third party
• Netting and collateral arrangements which reduce the credit exposure from derivatives and repo- and repo-style transactions.

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

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

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

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

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

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

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

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

In general, the Bank's business model is sufficiently flexible to adjust to structural changes in market and funding conditions within a time frame of about eight weeks.

If the stress event extends beyond an eight-week horizon, additional strategic countermeasures can be mobilized, such as reducing the funded balance sheet and increasing stable funding sources where possible.

Testing the CFP

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

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

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

Operational Risk Mitigation techniques

Once operational risks are identified and assessed, a determination of the most appropriate action is required within the risk specific appetite through remediation actions, insurance, risk acceptance or by ceasing/reducing business activities.

The Group Operational Risk Management Framework (ORMF) supports these decisions, based on an evaluation of remediation costs and potential impacts, resulting in three possible mitigating strategies:

• Self-Identified Issue: control gaps or weaknesses are supported by remediation actions and monitored to resolution in a timely manner
• Risk Acceptance: where remediation is not feasible, having appropriate regard to cost of control and potential impacts, tolerable risks may be accepted subject to appropriate evaluation and governance
• Ceasing or reducing business activities
• Risk transfer through insurance

Insurance coverage:

As part of DB Group's operational risk mitigation, risk transfer comprehends the use of all kind of insurance lines available in any market worldwide but is limited to the mitigation of insurable risk only. These policies cover a variety of risks including professional indemnity, errors and omissions liability, directors & officer's liability and credit risks. The insurance covers DB AG and all majority owned subsidiaries. Corporate Insurance Deukona (CID) is responsible in DB Group for ensuring appropriate insurance coverage (as defined by Corporate Insurance) and in its insurance brokerage function is responsible for negotiating appropriate insurance policy / contracts wordings and premiums. For that purpose, they establish the Group strategy and policy/guideline. Additionally, CID is responsible for insurance costs (all premium payments to insurers) in the Bank's Management Accounting (UBR) and an appropriate allocation of these costs to the Divisions. Finally, CID is active in industry discussions on all aspects of insurance in the context of the regulatory requirements.

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

Business Process Disruption Risk is the risk of failure in the business' ability to resume relevant business activities after disruptions affecting people, infrastructure, assets and operations. Within Non-Financial Risk Management (NFRM), Operational Resilience Risk Business Continuity Management (ORR BCM) is responsible for the Business Process Disruption Risk and therefore for the design, implementation and maintenance of the Bank's Business Continuity Management Framework, including IT Disaster Recovery (ITDR) and Recovery Site Management (RSM). DB proactively manages Business Process Disruption Risk by running a Business Continuity Framework, compliant with globally and locally applicable laws and regulations and aligned to relevant industry standards. The Business Continuity Management Framework aims to continuously improve the resilience of the Bank. Testing business continuity capabilities is a required component of the Bank's BCM program. The Bank tests the BCM/IT Disaster Recovery plans under the Business Recovery Solution Test (BRST) exercise on an annual basis. The BRST is used to validate Recovery Strategies through a series of one or more exercises/tests. Exercises identify weaknesses and opportunities for improvement, enabling remediation in advance of an actual crisis. They also help staff remain aware of their role and responsibilities in their Business Continuity Document.

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

Market Risk Mitigation Techniques

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

Quantitative disclosures

Credit Risk

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

In TLKR	2017 as at 31 Dec	2016 as at 31 Dec
Balances with Central bank of Sri Lanka	649,921	1,527,673
Balances with Banks & Financial Institutions	27,373	26,157
Placements with Banks	3,165,119	2,876,325
Group balances receivable	3,108,443	3,857,143
Investment in Government Securities	16,262,962	18,473,191
Other investments	1,600	1,600
Loans and Advances	9,579,696	10,570,559
Total on-balance sheet items	32,795,114	37,332,648
Letters of credit	3,082,335	2,991,839
Guarantees	7,830,306	6,885,070
Acceptances	708,022	529,067
Derivatives (net)	(234)	(90,506)
Usance Import bills	1,355,304	706,258
Undrawn credit lines	17,896,826	14,512,103
Other	46,001	150,430
Total off-balance sheet items	30,918,560	25,684,261

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

As at 31st Dec 2017 In TLKR	Central P	Western P	Total Sri Lanka	Asia Pacific (excl Sri Lanka)	North & Latin America	Africa & Middle East	Europe	Others
Balances with Central bank of Sri Lanka		649,921	649,921					
Balances with Banks & Financial Institutions		-	-	6,044	1,120		19,119	1,090
Placements with Banks		3,165,119	3,165,119					
Group balances receivable			-	1,292,063	1,317,953		498,427	
Investment in Government Securities		16,262,962	16,262,962					
Other investments		1,600	1,600					
Loans and Advances	4,586	9,575,110	9,579,696					
Total on-balance sheet items	4,586	29,654,712	29,659,298	1,298,107	1,319,073	-	517,546	1,090
Letters of credit		3,082,335	3,082,335	-				
Guarantees		291,499	291,499	4,789,488		931	2,720,846	27,542
Acceptances		708,022	708,022					
Derivatives (gross)		(234)	(234)					
Usance Import bills		1,355,304	1,355,304					
Undrawn credit lines		17,896,826	17,896,826					
Other		46,001	46,001					
Total off-balance sheet items	-	23,379,753	23,379,753	4,789,488	-	931	2,720,846	27,542
Total Exposure	4,586	53,034,465	53,039,051	6,087,595	1,319,073	931	3,238,392	28,632

As at 31st Dec 2016 In TLKR	Central P	Western P	Total Sri Lanka	Asia Pacific (excl Sri Lanka)	North & Latin America	Africa & Middle East	Europe	Others
Balances with Central bank of Sri Lanka		1,527,673	1,527,673					
Balances with Banks & Financial Institutions		-	-	9,387	1,073		12,621	3,077
Placements with Banks		2,876,325	2,876,325					
Group balances receivable			-	1,801,432	2,055,711			
Investment in Government Securities		18,473,191	18,473,191					
Other investments		1,600	1,600					
Loans and Advances	5,017	10,565,542	10,570,559					
Total on-balance sheet items	5,017	33,444,331	33,449,348	1,810,819	2,056,784	-	12,621	3,077
Letters of credit		2,962,757	2,962,757	29,082				
Guarantees		1,824,868	1,824,868	1,454,566		98,931	3,506,706	
Acceptances		529,067	529,067					
Derivatives (gross)		(90,506)	(90,506)					
Usance issuance bills		706,258	706,258					
Undrawn credit lines		14,512,103	14,512,103					
Other		150,430	150,430					
Total off-balance sheet items	-	20,594,976	20,594,976	1,483,648	-	98,931	3,506,706	-
Total Exposure	5,017	54,039,307	54,044,324	3,294,467	2,056,784	98,931	3,519,327	3,077

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

31st December 2017 In TLKR	Bills of Exchange	Overdrafts	Export Finance	Trade Finance	Supplier finance	Other	Total
Agriculture & Fishing	-	1,000,510	61,364	99,782	110,242	-	1,271,899
Manufacturing	-	2,403,306	767,054	647,899	21,580	-	3,839,840
Tourism	-	963,768	-	-	-	-	963,768
Transport	-	200,795	-	-	-	-	200,795
Construction	-	-	-	-	-	99,226	99,226
Trading	-	1,445,438	-	31,517	-	-	1,476,955
Telecommunications	-	734,123	-	-	916,674	-	1,650,798
Financial & Business Services	-	10	-	-	-	-	10
Other	-	-	-	-	-	76,405	76,405
Total	-	6,747,952	828,418	779,199	1,048,497	175,630	9,579,696

31st December 2016 In TLKR	Bills of Exchange	Overdrafts	Export Finance	Trade Finance	Supplier finance	Other	Total
Agriculture & Fishing	-	524,660	-	374,464	80,169	-	979,293
Manufacturing	-	1,323,945	-	1,539,211	13,680	-	2,876,836
Tourism	-	1,050,628	-	-	-	-	1,050,628
Transport	-	14,306	-	-	-	-	14,306
Construction	-	-	-	-	-	88,136	88,136
Trading	-	1,437,629	-	1,431,436	-	-	2,869,065
Telecommunications	-	708,748	-	-	1,930,455	-	2,639,204
Financial & Business Services	-	50	-	-	-	-	50
Consumption	-	-	-	-	-	53,041	53,041
Total	-	5,059,967	-	3,345,111	2,024,304	141,177	10,570,559

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

		31-Dec-17		31-Dec-16	
In Tlkr	Type	Utlisation/Exposure	Total	Utlisation/Exposure	Total
< 1 year	On-balance sheet	29,576,261		37,215,028	
	Off-Balance Sheet	29,153,542	58,729,803	22,944,858	60,159,886
1 year- 5 years	On-balance sheet	3,163,525		70,529	
	Off-Balance Sheet	1,738,445	4,901,970	2,712,830	2,783,359
> 5 years	On-balance sheet	55,328		47,091	
	Off-Balance Sheet	26,572	81,900	26,572	73,663

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

In TLKR 31st December 2017	Gross exposure	Collateral	Net exposure	Description of collateral	Description of Credit Quality
Balances with Central Bank of Sri Lanka	649,921		649,921	n/a	Sovereign Risk
Balances with Banks & Financial Institutions	27,373		27,373	n/a	83% of exposure with AAA to A- rated counterparts and 17% of exposure with BBB+ to BBB- rated counterparts
Placements with Banks	3,165,119		3,165,119		100% of exposure with AAA to BBB- locally rated counterparts.
Group balances receivable	3,108,443		3,108,443		Credit risk exposure of Group Receivables
Investment in Government Securities	16,262,962		16,262,962	n/a	Sovereign Risk
Other investments	1,600		1,600	n/a	Regulatory mandated investments in Lanka Clear & CRIB, subject to credit risk
Loans and Advances	9,579,696		9,579,696	Refer Note *	3% of exposure with AAA to AA- locally rated counterparts. The others are classified as unrated as no local ratings have been issued. However all are performing as at period end.
Total on-balance sheet items	32,795,114	-	32,795,114		
Letters of credit	3,082,335		3,082,335		
Guarantees	7,830,306		7,830,306		
Acceptances	708,022		708,022	Refer Note *	Total credit equivalent of off b/s exposures is LKR 4.5 bio, of which 43% of the exposure is with AAA to BBB- counterparts. All performing as at period end.
Derivatives (gross)	(234)		(234)		
Usance Import bills	1,355,304		1,355,304		
Undrawn credit lines	17,896,826		17,896,826		
Other	46,001		46,001		
Total off-balance sheet items	30,918,560	-	30,918,560		

In TLKR 31st December 2016	Gross exposure	Collateral	Net exposure	Description of collateral	Description of Credit Quality
Balances with Central Bank of Sri Lanka	1,527,673		1,527,673	n/a	Sovereign Risk
Balances with Banks & Financial Institutions	26,157		26,157	n/a	64% of exposure with AAA to A- rated counterparts and 36% of exposure with BBB+ to BBB- rated counterparts
Placements with Banks	2,876,325		2,876,325		100% of exposure with AAA to BBB- locally rated counterparts.
Group balances receivable	3,857,143		3,857,143		Credit risk exposure of Group Receivables
Investment in Government Securities	18,473,191		18,473,191	n/a	Sovereign Risk
Other investments	1,600		1,600	n/a	Regulatory mandated investments in Lanka Clear & CRIB, subject to credit risk
Loans and Advances	10,570,559		10,570,559	Refer Note *	18% of exposure with AAA to AA- locally rated counterparts. The others are classified as unrated as no local ratings have been issued. However all are performing as at period end.
Total on-balance sheet items	37,332,648	-	37,332,648		
Letters of credit	2,991,839		2,991,839		
Guarantees	6,885,070		6,885,070		
Acceptances	529,067		529,067	Refer Note *	Total credit equivalent of off b/s exposures is LKR 4.8 bio, of which 62.08% of the exposure is with AAA to A- counterparts. All performing as at period end.
Derivatives (gross)	(90,506)		(90,506)		
Usance Import bills	706,258				
Undrawn credit lines	14,512,103		14,512,103		
Other	150,430		150,430		
Total off-balance sheet items	25,684,261	-	25,684,261		

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

Market Risk

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

Sensitivity of Assets and Liabilities
(Currency - LKR mio)
As at 31 Dec 2017

No.	Assets and OBS	Upto 1 month	1 - 3 Months	3 - 6 Months	6 - 12 Months	1 - 2 Years	2 - 3 Years	3 - 4 Years	4 - 5 Years	5 - 7 Years	7 - 10 years	10 - 15 Years	15 - 20 Years	Over 20 Years	Non Sensitive	Total
1	Cash on Hand	-	-	-	-	-	-	-	-	-	-	-	-	-		
2	Deposits with CBSL	-	-	-	-	-	-	-	-	-	-	-	-	-	142	142
3	Balances due from HO/Affiliates/Branches	-	-	-	-	-	-	-	-	-	-	-	-	-	650	650
4	Balances due from Other Banks	3,163	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5	Investments	2,748	500	5,344	-	-	-	-	-	-	-	-	-	-	-	3,163
6	Bills of Exchange and Promissory Notes	-	-	-	-	-	-	-	-	-	-	-	-	-	2	8,595
7	Overdrafts	381	381	381	763	1,059	-	1,059	-	1,059	-	-	-	-	-	-
8	Loans and Advances	589	560	8	1	4	53	6	7	15	14	28	31	-	-	5,084
9	Non Performing Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,316
10	Fixed Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	Net Inter-branch Transactions	-	-	-	-	-	-	-	-	-	-	-	-	-	65	65
12	Accrued Interest	-	-	-	-	-	-	-	-	-	-	-	-	-	35	35
13	Other Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	70	70
14	Reverse Repos	-	-	-	-	-	-	-	-	-	-	-	-	-	907	907
15	FRAs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
16	Swaps	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
17	Futures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18	Options	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
19	FX FWD Contracts- BUY	-	-	-	164	-	-	-	-	-	-	-	-	-	-	164
	Total	6,881	1,442	5,734	927	1,063	53	1,066	7	1,074	14	28	31	-	1,870	20,191
	Liabilities and OBS															
1	Demand Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-		-
2	Savings Deposits	89	89	89	179	224	224	224	224	447	-	-	-	-	4,312	4,312
3	Time Deposits	1,178	35	309	-	-	-	-	-	-	-	-	-	-	-	1,789
4	Other Deposits	378	-	-	-	-	-	-	2	-	-	-	-	-	-	1,525
5	Balances due to HO/Affiliates/Branches	-	-	-	-	-	-	-	-	-	-	-	-	-	-	379
6	Balance due to other Banks	700	-	-	-	-	-	-	-	-	-	-	-	-	5	5
7	Certificate of Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	700
8	Other Borrowings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	Net Inter-branch Transactions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	Bills Payable	-	-	-	-	-	-	-	-	-	-	-	-	-	1,328	1,328
11	Interest Payable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12	Provisions (Others)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13	Capital	-	-	-	-	-	-	-	-	-	-	-	-	-	1,080	1,080
14	Reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	3,608	3,608
15	Retained Earnings + Current year Profits	-	-	-	1,548	-	-	-	-	-	-	-	-	-	4,142	4,142
16	Subordinate Debts	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,548
17	Other (Specify)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18	Repos	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
19	FRAs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20	Futures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
21	Swaps	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
22	Options	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Total	2,345	125	399	1,727	224	224	224	226	447	-	-	-	-	14,474	20,413
	Gap	4,536	1,317	5,335	(800)	840	(171)	842	(219)	627	14	28	31	-	(12,604)	(223)

	Upto 1 month	1 - 3 Months	3 - 6 Months	6 - 12 Months	1 - 2 Years	2 - 3 Years	3 - 4 Years	4 - 5 Years	5 - 7 Years	7 - 10 years	10 - 15 Years	15 - 20 Years	Over 20 Years	Non Sensitive	Total
Lines of credit committed to institutions and other borrowers	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Unutilised portion of overdraft, loans and advances	60	-	-	-	-	-	-	-	-	-	-	-	-	-	60
Letters of credit/guarantees/acceptances	613	1,548	266	652	457	28	-	-	-	-	-	-	-	-	3,565
Repo/Bills rediscounted/Swaps/Forward contracts (LKR against Other currencies)	6	22	104	54	-	-	-	-	-	-	-	-	-	-	185

Sensitivity of Assets and Liabilities

(Currency - USD mio)
As at 31 Dec 2017

No.	Assets and OBS	Upto 1 month	1 - 3 Months	3 - 6 Months	6 - 12 Months	1 - 2 Years	2 - 3 Years	3 - 4 Years	4 - 6 Years	5 - 7 Years	7 - 10 years	10 - 15 Years	15 - 20 Years	Over 20 Years	Non Sensitive	Total
1	Cash on Hand	-	-	-	-	-	-	-	-	-	-	-	-	-	0.0	0.0
2	Deposits with CBSL	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3	Balances due from HO/Affiliates/Branches	-	-	-	-	-	-	-	-	-	-	-	-	-	16.6	16.6
4	Balances due from Other Banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5	Investments	-	30.0	-	-	20.0	-	-	-	-	-	-	-	-	-	50.0
6	Bills of Exchange and Promissory Notes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7	Overdrafts	0.6	0.6	0.6	1.3	1.8		1.8		1.8	-	-	-	-	-	8.5
8	Loans and Advances	11.3	-	-	-	-	-	-	-	-	-	-	-	-	-	11.3
9	Non Performing Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	Fixed Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	Net Inter-branch Transactions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12	Accrued Interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13	Other Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	3.9	3.9
14	Revese Repos	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15	FRAs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
16	Swaps	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
17	Futures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18	Options	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
19	FX FWD Contracts- BUY	1.2	-	-	-	-	-	-	-	-	-	-	-	-	-	1.2
	Total	13.1	30.7	0.6	1.3	21.8	-	1.8	-	1.8	-	-	-	-	20.6	91.6
	Liabilities and OBS															
1	Demand Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	17.1	17.1
2	Savings Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3	Time Deposits	0.4	-	-	-	-	-	-	-	-	-	-	-	-	-	0.4
4	Other Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5	Balances due to HO/Affiliates/Branches	0.95	30.0	-	-	20.0	-	-	-	-	-	-	-	-	-	50.95
6	Balance due to other Banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7	Certificate of Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8	Other Borrowings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	Net Inter-branch Transactions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	Bills Payable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	Interest Payable	-	-	-	-	-	-	-	-	-	-	-	-	-	0.7	0.7
12	Provisions - income tax	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13	Capital	-	-	-	-	-	-	-	-	-	-	-	-	-	7.2	7.2
14	Reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	1.7	1.7
15	Retained Earnings	-	-	-	5.3	-	-	-	-	-	-	-	-	-	-	5.3
16	Subordinate Debts	-	-	-	-	-	-	-	-	-	-	-	-	-	5.1	5.1
17	Other (FCBU(USD) GLLP/PV)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18	Repos	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
19	FRAs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20	Futures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
21	Swaps	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
21	Options	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Total	1.4	30.0	-	5.3	20.0	-	-	-	-	-	-	-	-	31.9	88.5
	Gap	11.8	0.7	0.6	(4.0)	1.8	-	1.8	-	1.8	-	-	-	-	(11.3)	3.1

	Upto 1 month	1 - 3 Months	3 - 6 Months	6 - 12 Months	1 - 2 Years	2 - 3 Years	3 - 4 Years	4 - 6 Years	5 - 7 Years	7 - 10 years	10 - 15 Years	15 - 20 Years	Over 20 Years	Non Sensitive	Total
Lines of credit committed to institutions and other borrowers	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Unutilised portion of overdraft, loans and advances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Letters of credit/guarantees/acceptances	15.4	11.1	6.1	2.0	2.6	0.9	-	-	-	-	-	-	-	-	38.1
Repo/Bills rediscounted/Swaps/Forward contracts (USD against Other currencies)	1.0	-	-	-	-	-	-	-	-	-	-	-	-	-	1.0

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

Foreign Exchange Position
As at end of : 31st December, 2017
In LKR mio

Currency	Spot Assets	Spot Liabilities	Net	Forward(a) Assets	Forward(a) Liabilities	Net	Net Open Position	Net Position in other exchange contracts	Overall exposure in respective foreign currency	Overall exposure in Sri Lankan Rupees
(1)	(2)	(3)	(4)=(2)-(3)	(5)	(6)	(7)=(5)-(6)	(8)	(9)	(10)	(11)
US Dollars	89.8	88.0	1.8	2.2	4.6	(2.3)	(0.5)	-	(0.49)	(75.5)
Pound Sterling	0.1	0.1	(0.0)	-	-	-	(0.0)	-	(0.0)	(0.6)
Euro	4.7	2.9	1.8	0.3	0.3	0.0	1.8	-	1.8	327.2
Japanese Yen	3.9	2.7	1.2	1.5	-	1.5	2.7	-	2.7	3.7
Indian Rupee	-	-	-	-	-	-	-	-	-	-
Australian Dollar	0.0	0.0	(0.0)	-	-	-	(0.0)	-	(0.0)	(0.4)
Canadian Dollar	0.0	0.0	0.0	-	-	-	0.0	-	0.0	1.1
Other Currencies										
SGD									(0.0)	(1.6)
CHF									0.0	7.2
SEK									0.0	0.6
MYR									0.0	0.5
HKD									0.0	0.3
THB									0.0	0.1
CNH									0.1	3.5
Total Exposure										266
Total capital funds as per the latest audited financial statements (f)										10,914
Total exposure as % of total capital funds as per the latest audited financial statements										2%

iii) **Liquidity Risk**

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

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

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

Ratios:	31-Dec-16	2017			
		Q1	Q2	Q3	Q4
Statutory Liquid Assets Ratio (SLAR)					
- Domestic Banking unit	96%	90%	113%	97%	99%
- Off-Shore Banking unit	104%	129%	104%	108%	101%
Liquidity Coverage Ratio (LCR)					
- All Currency	1111%	388%	477%	344%	731%
- Rupee	1634%	604%	967%	796%	1021%
Net loans to total assets	27%	20%	23%	26%	28%
Loans to customer deposits	83%	47%	67%	70%	83%
Liquid assets to short term liabilities	135%	153%	167%	146%	148%
Commitments to Liquid assets	139%	42%	58%	46%	71%

Maturities of Assets and Liabilities (MAL)
(Currency - LKR mio)
As at 31 Dec 2017

No.	Heads of Accounts Item	Upto 1 month	1 - 3 Months	3 - 6 Months	6 - 9 Months	9 - 12 Months	1 - 3 Years	3 - 5 Years	Over 5 Years
A	Inflows								
1	Cash on Hand	142	-	-	-	-	-	-	-
2	Deposits with CBSL	204	80	85	42	42	36	36	124
3	Balances due from Head Office, Affiliates and Own branches	-	-	-	-	-	-	-	-
4	Balances due from Other Banks	3,163	-	-	-	-	-	-	-
5	Investments (Net of provisions)	2,748	500	5,344	-	-	-	-	2
6	Bills of Exchange	-	-	-	-	-	-	-	-
7	Overdraft	381	381	381	381	381	1,059	1,059	1,059
8	Loans and Advances	589	560	8	16	0	55	34	54
9	NPLs	-	-	-	-	-	-	-	-
10	Net Inter-Branch Transactions	-	-	-	-	-	-	-	-
11	Other Assets	806	7	10	10	10	10	-	55
12	Lines of credit committed from institutions	-	-	-	-	-	-	-	-
13	Reverse Repo	-	-	-	-	-	-	-	-
14	Accrued Interest	70	-	-	-	-	-	-	-
15	Fixed Assets	-	-	-	-	-	-	-	65
16	Interbranch receivables	35	-	-	-	-	-	-	-
17	FX FWD Contracts- BUY	-	-	-	83	82	-	-	-
	Total (a)	8,137	1,528	5,829	532	516	1,161	1,130	1,358
B	Outflows								
1	Demand Deposits	862	862	647	431	431	-	-	1,078
2	Savings Deposits	89	89	89	89	89	447	447	447
3	Balances due to Head Office/Affiliates/Own Branches	5	-	-	-	-	-	-	-
4	Balances due from Other Banks	700	-	-	-	-	-	-	-
5	Time and Other Deposits	1,555	35	309	-	-	-	-	2
6	Certificates of Deposits, Borrowings & Bonds	-	-	-	-	-	-	-	-
7	Net Inter-branch Transactions	-	135	-	-	-	1,193	-	-
8	Bills Payable	-	-	-	-	-	-	-	-
9	Interest Payable	-	-	-	-	-	-	-	-
10	Provisions other than for loan losses and depreciation in the value of investment portfolio	-	-	-	-	-	-	-	-
11	Other Liabilities	66	94	440	(0)	-	-	-	480
12	Lines of credit committed to institutions	-	-	-	-	-	-	-	-
13	Unutilized portion of Overdraft, Loans and Advances	9	9	4	4	4	10	10	10
14	Letters of Credit/ Guarantees/Acceptances	613	1,548	266	235	417	485	-	-
15	Repo/Bills Rediscounted/Swaps/Forward contracts	6	22	104	28	26	-	-	-
16	Capital & Reserves	-	-	-	-	-	-	-	7,750
17	Retained Earnings + Current year profits	-	-	-	-	1,548	-	-	-
	Total (b)	3,906	2,795	1,859	788	2,515	2,135	457	9,767
	Gap = (a) - (b)	4,232	(1,266)	3,970	(255)	(2,000)	(975)	672	(8,409)
	Cumulative Gap	4,232	2,965	6,935	6,679	4,680	3,705	4,377	(4,032)
	Cumulative Liabilities	3,906	6,701	8,560	9,348	11,863	13,998	14,456	24,223
	Cumulative Gap as a % of Cumulative Liabilities	108%	44%	81%	71%	39%	26%	30%	-17%

Maturities of Assets and Liabilities (MAL)
(Currency - USD mio)
As at 31 Dec 2017

No.	Heads of Accounts Item	Upto 1 month	1 - 3 Months	3 - 6 Months	6 - 9 Months	9 - 12 Months	1 - 3 Years	3 - 5 Years	Over 5 Years
A	Inflows								
1	Cash on Hand	0.0	-	-	-	-	-	-	-
2	Deposits with CBSL	-	-	-	-	-	-	-	-
3	Balances due from Head Office, Affiliates and Own branches	16.6	-	-	-	-	-	-	-
4	Balances due from Other Banks	-	-	-	-	-	-	-	-
5	Investments (Net of provisions)	-	30.0	-	-	-	20.0	-	-
6	Bills of Exchange	-	-	-	-	-	-	-	-
7	Overdraft	0.6	0.6	0.6	0.6	0.6	1.8	1.8	1.8
8	Loans and Advances	11.3	-	-	-	-	-	-	-
9	NPLs	-	-	-	-	-	-	-	-
10	Net Inter-Branch Transactions	-	-	-	-	-	-	-	-
11	Other Assets	3.9	-	-	-	-	-	-	-
12	Lines of credit committed from institutions	-	-	-	-	-	-	-	-
13	Other	0.0	-	-	-	-	-	-	-
14	FX FWD Contracts- BUY	1.2	-	-	-	-	-	-	-
	Total (a)	33.7	30.7	0.6	0.6	0.6	21.8	1.8	1.8
B	Outflows								
1	Demand Deposits	3.4	3.4	2.6	1.7	1.7	-	-	4.3
2	Savings Deposits						-	-	-
3	Balances due to Head Office/Affiliates/Own Branches	1.0	30.0	-	-	-	20.0	-	-
4	Balances due from Other Banks	-	-		-	-	-	-	-
5	Time Deposits	0.4	-	-	-	-	-	-	-
6	Certificates of Deposits, Borrowings & Bonds	-	-	-	-	-	-	-	-
7	Net Inter-branch Transactions	-	-	-	-	-	-	-	-
8	Bills Payable	-	-	-	-	-	-	-	-
9	Interest Payable	0.7	-	-	-	-	-	-	-
10	Provisions other than for loan losses and depreciation in the value of investment portfolio	-	-	-	-	-	-	-	-
11	Other Liabilities	5.1	-	-	-	-	-	-	-
12	Lines of credit committed to institutions	-	-	-	-	-	-	-	-
13	Unutilized portion of Overdraft, Loans and Advances	-	-	-	-	-	-	-	-
14	Letters of Credit/ Guarantees/Acceptances	15.4	11.1	6.1	-	2.0	3.5	-	-
15	Repo/Bills Rediscounted/Swaps/Forward contracts	1.0	-	-	-	-	-	-	-
16	Capital & Reserves	-	-	-	-	-	-	-	9.0
17	Retained Earnings +current year profits	-	-	-	-	5.3	-	-	-
	Total (b)	27.1	44.5	8.7	1.7	8.9	23.5	-	13.2
	Gap = (a) - (b)	6.7	(13.9)	(8.0)	(1.1)	(8.3)	(1.7)	1.8	(11.5)
	Cumulative Gap	6.7	(7.2)	(15.2)	(16.3)	(24.6)	(26.3)	(24.5)	(36.0)
	Cumulative Liabilities	27.1	71.6	80.3	82.0	90.9	114.4	114.4	127.6
	Cumulative Gap as a % of Cumulative Liabilities	25%	-10%	-19%	-20%	-27%	-23%	-21%	-28%

Operational Risk

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

There have been no major operational viz. system or human, failures and financial losses incurred by the bank due to such failures during the reporting period.

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

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

With respect to activities outsourced locally, a few non-core activities have been outsourced to third party vendors. Such activities are performed within the DB Colombo premises under the supervision of DB Colombo staff excluding cash pick-up, document archival, and processing of payroll which are handled outside DB Colombo premises.

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

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

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

Interest Rate risk in the Banking Book (IRRBB)

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

CAPITAL

Main features of Regulatory Capital Instruments

Description of the Capital Instrument	31-Dec-17	31-Dec-16
Assigned Capital		
DB Colombo, being a branch of Deutsche Bank AG Frankfurt, is provided assigned capital to support both business requirements and maintain minimum regulatory capital requirements. It is consequently governed by the laws and regulations of the Central Bank of Sri Lanka.		
Amount Recognised in Regulatory Capital (in LKR '000 as at the Reporting Date)	4,410,461	4,410,461
Accounting Classification	Equity	Equity
Reserve Fund		
This represents accumulated annual transfer of 5 % of profits after tax as required under Section 20 (1) of the Banking Act No. 30 of 1988.		
Amount Recognised in Regulatory Capital (in LKR '000 as at the Reporting Date)	619,600	595,653
Accounting Classification	Equity	Equity
Retained Earnings		
This represents all unremitted /audited profits of DB Colombo		
Amount Recognised in Regulatory Capital (in LKR '000 as at the Reporting Date)	2,152,607	3,756,059
Accounting Classification	Equity	Equity
Accumulated Other Comprehensive Income (OCI)		
This represents reserves created on changes in Fair Value of Available-for-Sale instruments, Acturial loss on defined benefit plans and related taxes.		
Amount Recognised in Regulatory Capital (in LKR '000 as at the Reporting Date)	-	(4,828)
Accounting Classification	Equity	Equity
General and other Disclosed Reserves		
This represents all amounts due to DB Group which cannot be paid due to the threshold imposed by the Central Bank of Sri Lanka. Unpaid amounts have been transferred to a "Special Reserve" with due approval from the regulators.		
Amount Recognised in Regulatory Capital (in LKR '000 as at the Reporting Date)	3,743,213	3,743,213
Accounting Classification	Equity	Equity

Basel III Capital Adequacy and Computation of Capital Ratios

in LKR '000

Item	Reporting Period Dec 31, 2017	Previous Reporting Period Dec 31, 2016
Common Equity Tier 1 (CET1) Capital after Adjustments	10,913,782	12,468,591
Common Equity Tier 1 (CET1) Capital	10,925,881	12,500,558
Equity Capital (Stated Capital)/Assigned Capital	4,410,461	4,410,461
Reserve Fund	619,600	595,653
Published Retained Earnings/(Accumulated Retained Losses)	2,152,607	3,756,059
Published Accumulated Other Comprehensive Income (OCI)	-	(4,828)
General and other Disclosed Reserves	3,743,213	3,743,213
Unpublished Current Year's Profit/Loss and Gains reflected in OCI	-	-
Ordinary Shares issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	-
Total Adjustments to CET1 Capital	(12,099)	(31,967)
Goodwill (net)	-	-
Intangible Assets (net)	-	-
Others (Deferred Tax Assets, Vostro)	(12,099)	(31,967)
Additional Tier 1 (AT1) Capital after Adjustments	-	-
Additional Tier 1 (AT1) Capital	-	-
Qualifying Additional Tier 1 Capital Instruments	-	-
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	-
Total Adjustments to AT1 Capital	-	-
Investment in Own Shares	-	-
Others (specify)	-	-
Tier 2 Capital after Adjustments	-	-
Tier 2 Capital	-	-
Qualifying Tier 2 Capital Instruments	-	-
Revaluation Gains	-	-
Loan Loss Provisions	-	-
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	-
Total Adjustments to Tier 2	-	-
Investment in Own Shares	-	-
Others (specify)	-	-
CET1 Capital	10,913,782	12,468,591
Total Tier 1 Capital	10,913,782	12,468,591
Total Capital	10,913,782	12,468,591

in LKR '000

Item	Reporting Period Dec 31, 2017	Previous Reporting Period Dec 31, 2016
Total Risk Weighted Assets (RWA)	21,123,917	19,437,070
RWAs for Credit Risk	16,389,123	14,367,476
RWAs for Market Risk	335,004	307,253
RWAs for Operational Risk	4,399,789	4,762,341
CET1 Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	51.67%	61.15%
of which: Capital Conservation Buffer (%)	1.25%	1.25%
of which: Countercyclical Buffer (%)	-	-
of which: Capital Surcharge on D-SIBs (%)	-	-
Total Tier 1 Capital Ratio (%)	51.67%	61.15%
Total Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	51.67%	61.15%
of which: Capital Conservation Buffer (%)	1.25%	1.25%
of which: Countercyclical Buffer (%)	-	-
of which: Capital Surcharge on D-SIBs (%)	-	-

Summary discussion on adequacy/meeting current and future capital requirements

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

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

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

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

The BRS translates DB Colombo's long-term strategy into measurable short to mid-term financial targets which aims at identifying optimal growth options considering the risk involved and the allocation of available capital resources to promote sustainable performance.
The planning process allows DB Colombo to:
• Set earnings and key risk and capital adequacy assessment in line with the Bank's strategic focus and business plans;
• Assess DB Colombo's capital adequacy with regard to internal and external requirements (i.e. regulatory and economic capital); and

To ensure alignment with the Group plan and achieve a harmonised and pro-active capital planning with the Group strategies DB Colombo local BRS plans is linked with DB Group general divisional planning assumptions.

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

DB Colombo categorizes material risks into financial risks and non-financial risks. Financial risks comprise credit risk, market risk, liquidity risk and business (strategic) risk. Nonfinancial risks comprise operational risks and reputational risks. For all material risks common risk management standards apply.

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

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

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

The BRS translates DB Colombo's long-term strategy into measurable short to mid-term financial targets which aims at identifying optimal growth options considering the risk involved and the allocation of available capital resources to promote sustainable performance.
The planning process allows DB Colombo to:
• Set earnings and key risk and capital adequacy assessment in line with the Bank's strategic focus and business plans;
• Assess DB Colombo's capital adequacy with regard to internal and external requirements (i.e. regulatory and economic capital);

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

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

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

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

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

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

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

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

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

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

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

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

DB Colombo subjects all risk types covered under its EC concept, as well as liquidity risk, to regular stress tests. At Group level, the Stress Testing Forum is responsible for aligning scenario definitions between DB Group and legal entities according to the *Group Stress Testing Policy.*
Stress testing is an integral part of DB Colombo's risk management and links to all other risk management practices:

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

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

44. Accounting Classification and Fair Values of Financial Instruments

Financial Instruments are measured subsequently on an ongoing basis either at Fair Value or at Amortised Cost. The summary of significant accounting policies describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognized. The tables below provide a reconciliation between the line items in the Statement of Financial Position and categories of financial assets and financial liabilities of the Bank.

44.1 Classification of Financial Instruments

As at 31st December 2017	Loans and Receivables Rs.	Held for Trading Rs.	Available for Sale Rs.	Other Amortised Cost Rs.	Total Carrying Amount Rs.
Financial Assets					
Cash and Cash Equivalents	178,378,495	-	-	-	178,378,495
Balances with Central Banks	649,920,855	-	-	-	649,920,855
Placements with Banks	3,165,118,777	-	-	-	3,165,118,777
Derivative Financial Instruments	-	3,178,675	-	-	3,178,675
Financial Investments Held for Trading	-	-	-	-	-
Loans and Receivables to Other Customers	9,524,056,819	-	-	-	9,524,056,819
Financial Investments – Available-for-sale	-	-	16,264,562,000	-	16,264,562,000
Group Balance Receivable	3,108,443,184	-	-	-	3,108,443,184
Other Assets	959,308,367	-	-	-	959,308,367
Total Financial Assets	**17,585,226,498**	**3,178,675**	**16,264,562,000**	**-**	**33,852,967,173**
Financial Liabilities					
Derivative Financial Instruments	-	4,265,960	-	-	4,265,960
Other Borrowings	-	-	-	-	-
Due to Other Customers	-	-	-	11,560,749,665	11,560,749,665
Subordinated Term Debt	-	-	-	-	-
Group Balances Payable	-	-	-	9,244,765,769	9,244,765,769
Other Liabilities	-	-	-	372,161,298	372,161,298
Total Financial Liabilities	**-**	**4,265,960**	**-**	**21,177,676,732**	**21,181,942,692**

44 Accounting Classification and Fair Values of Financial Instruments (cont.)

44.1 Classification of Financial Instruments (cont.)

As at 31st December 2016	Loans and Receivables Rs.	Held for Trading Rs.	Available for Sale Rs.	Other Amortised Cost Rs.	Total Carrying Amount Rs.
Financial Assets					
Cash and Cash Equivalents	193,773,348	-	-	-	193,773,348
Balances with Central Banks	1,527,672,857	-	-	-	1,527,672,857
Placements with Banks	2,876,324,685	-	-	-	2,876,324,685
Derivative Financial Instruments	-	56,140,231	-	-	56,140,231
Loans and Receivables to Other Customers	10,499,161,095	-	-	-	10,499,161,095
Financial Investments – Available-for-sale	-	-	18,474,791,127	-	18,474,791,127
Group Balance Receivable	3,857,142,968	-	-	-	3,857,142,968
Other Assets	1,963,240,778	-	-	-	1,963,240,778
Total Financial Assets	**20,917,315,731**	**56,140,231**	**18,474,791,127**	**-**	**39,448,247,089**
Financial Liabilities					
Derivative Financial Instruments	-	35,286,013	-	-	35,286,013
Due to Other Customers	-	-	-	12,800,170,018	12,800,170,018
Subordinated Term Debt	-	-	-	1,366,654,264	1,366,654,264
Group Balances Payable	-	-	-	11,878,574,473	11,878,574,473
Current Tax Liability	-	-	-	278,236,676	278,236,676
Other Liabilities	-	-	-	165,862,864	165,862,864
Total Financial Liabilities	**-**	**35,286,013**	**-**	**26,489,498,295**	**26,524,784,308**

44. Accounting Classification and Fair Values of Financial Instruments (cont.)

44.2 Fair Value of Financial Instruments

44.2.1 Fair Value Hierarchy

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

As at 31st December 2017	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Financial Assets				
Derivative Financial Instruments	3,178,675	-	-	3,178,675
Financial Investments Held for Trading				
Treasury Bills	-	-	-	-
Treasury Bonds	-	-	-	-
Financial Investments – Available-for-sale				
Treasury Bills & Bonds	16,262,962,000	-	-	16,262,962,000
Equity Securities	-	-	1,600,000	1,600,000
Financial Assets	**16,266,140,676**	-	**1,600,000**	**16,267,740,676**
Financial Liabilities				
Derivative Financial Instruments	4,265,960	-	-	4,265,960
Other Borrowings	-	-	-	-
Financial Liabilities	**4,265,960**	-	-	**4,265,960**

As at 31st December 2016	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Financial Assets				
Derivative Financial Instruments	56,140,231	-	-	56,140,231
Financial Investments Held for Trading				
Treasury Bills	-	-	-	-
Treasury Bonds	-	-	-	-
Financial Investments – Available-for-sale				
Treasury Bills & Bonds	18,473,191,127	-	-	18,473,191,127
Equity Securities	-	-	1,600,000	1,600,000
Financial Assets	**18,529,331,358**	-	**1,600,000**	**18,530,931,358**
Financial Liabilities				
Derivative Financial Instruments	35,286,013	-	-	35,286,013
Other Borrowings	-	-	-	-
Financial Liabilities	**35,286,013**	-	-	**35,286,013**

44.2.2 Assets for Which Fair Value approximates Carrying Value

For the financial assets and financial liabilities with short term maturities, it is assumed that the carrying value approximates their fair value. Hence fair value hierarchy is not applicable for the said financial assets and financial liabilities.