Deutsche Bank AG, Colombo Branch

Pillar 3 Disclosures

as at December 31, 2017

CONTENTS

INTRODUCTION

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

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

DB Group offers a wide variety of investment, financial and related products and services to private individuals, corporate entities and institutional clients around the world and organized under three divisions : Corporate and Investment Banking (CIB), Private & Commercial Bank (PCB) and Asset Management (AM). CIB combines Deutsche Bank's Corporate Finance, Equities, Fixed Income & Currencies and Global Transaction Banking Businesses with the latter providing cash management, trade finance and securities services, delivering the full range of commercial banking products and services for both corporates and institutions worldwide. PCB corporate division combines the bank's expertise in private and commercial banking with Postbank in Germany and Wealth Management in one corporate division. AM offers individuals and institutions traditional and alternative investments across all major asset classes.

DB Colombo Branch offers a comprehensive range of services such as Cash Management, Trade Finance, Investor Services, Foreign Exchange (FX) and Debt Capital Markets (DCM) products within the Corporate & Investment Banking (CIB) Business.

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

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

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

The information provided in this Pillar 3 Report is unaudited.

REGULATORY REQUIREMENTS ON CAPITAL AND LIQUIDITY

Key Regulatory Ratios – Capital and Liquidity

Item	Reporting Period Dec 31, 2017	Previous Reporting Period Dec 31, 2016
Regulatory Capital (LKR '000)		
Common Equity Tier 1	10,913,782	12,468,591
Tier 1 Capital	10,913,782	12,468,591
Total Capital	10,913,782	12,468,591
Regulatory Capital Ratios (%)		
Common Equity Tier 1 Capital Ratio *(Minimum Requirement - 5.75%)*	51.67%	64.15%
Tier 1 Capital Ratio *(Minimum Requirement - 7.25%)*	51.67%	64.15%
Total Capital Ratio *(Minimum Requirement - 11.25%)*	51.67%	64.15%
Regulatory Liquidity		
Statutory Liquid Assets (LKR'000)	31,163,892	29,622,817
Statutory Liquid Assets Ratio *(Minimum Requirement - 20%)*		
Domestic Banking Unit (%)	96.86%	96.13%
Off-Shore Banking Unit (%)	101.31%	104.43%
Liquidity Coverage Ratio (%) – Rupee *(Minimum Requirement - 80%)*	1021.01%	1634.40%
Liquidity Coverage Ratio (%) – All Currency *(Minimum Requirement - 80%)*	730.76%	1110.91%

Basel III 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 (%)	-	-

Total Capital Ratio reduced by 9.48 % over December 31, 2016 due to:

- Increased Risk Weighted Assets on Credit Risk due to increased exposures to Banks since December 31, 2016.
- Decline in Capital Base by LKR 2.1 bn since 31 December 2016 due to repatriation of 2014 and 2015 retained earnings.

Basel III Computation of Liquidity Coverage Ratio

in LKR '000 Item	Reporting Period Total Un-weighted Value	Reporting Period Total Weighted Value	Previous Reporting Period Total Un-weighted Value	Previous Reporting Period Total Weighted Value
Total Stock of High-Quality Liquid Assets (HQLA)	-	8,743,968	-	16,401,278
Total Adjusted Level 1A Assets	-	8,743,968	-	16,401,278
Level 1 Assets	-	8,743,968	-	16,401,278
Total Adjusted Level 2A Assets	-	-	-	-
Level 2A Assets	-	-	-	-
Total Adjusted Level 2B Assets	-	-	-	-
Level 2B Assets	-	-	-	-
Total Cash Outflows	38,596,836	4,786,226	34,105,427	5,905,509
Deposits	675,100	2,624	339,409	2,397
Unsecured Wholesale Funding	7,653,549	4,073,097	8,697,294	5,229,325
Secured Funding Transactions	-	-	-	-
Undrawn Portion of Committed (Irrevocable) Facilities and Other Contingent Funding Obligations	30,268,187	651,098	25,068,724	555,612
Additional Requirements	-	59,407	-	118,176
Total Cash Inflows	5,972,210	8,335,546	7,993,209	7,922,747
Maturing Secured Lending Transactions Backed by Collateral	-	-	-	-
Committed Facilities	-	-	-	-
Other Inflows by Counterparty which are Maturing within 30 Days	4,021,578	8,335,078	4,203,084	7,903,084
Operational Deposits	1,950,631	-	3,772,040	-
Other Cash Inflows	-	467	18,086	19,663
Liquidity Coverage Ratio (%) (Stock of High Quality Liquid Assets/Total Net Cash Outflows over the Next 30 Calendar Days) * 100		730.76		1,110.91

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

RISK WEIGHTED ASSETS (RWA)

Summary discussion on adequacy/meeting current and future capital requirements

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

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

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

The 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;

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

We categorize our material risks into financial risks and non-financial risks. Financial risks comprise credit risk, market risk, liquidity risk and business (strategic) risk. 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 our internal capital adequacy assessment process, we calculate the amount of economic capital for credit, market, operational and business risk to cover risks generated from our business activities taking into account diversification effects across those risk types. Furthermore, our economic capital framework embeds additional risks, e.g. reputational risk and refinancing risk, for which no dedicated economic capital models exist. We exclude liquidity risk from economic capital.

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

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

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

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

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

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

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

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

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

Pillar 2: Internal capital adequacy is measured by the Economic Capital Adequacy (ECA) Ratio. The DB Colombo ICAAP is designed to provide an assessment of capital needs on a forward-looking basis. The ICAAP framework and policies of DB Colombo are aimed at achieving the following capital management objectives:
• ensuring that the Bank is adequately capitalised for economic purposes on a forward-looking basis;
• maintaining an optimal capital structure that takes into consideration shareholder interests;
• promoting the efficient use of capital;
• linking and aligning the business strategy, risk and return dimensions through the annual strategic plan process; and
• ensuring appropriate monitoring through the quarterly Risk & Capital Profile report and a robust governance framework.

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

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

Recovery & Resolution Planning

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

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

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

in LKR '000	Dec 31,2017						Dec 31,2016	
	Exposures before Credit Conversion Factor (CCF) and CRM		Exposures post CCF and CRM		RWA and RWA Density (%)		RWA and RWA Density (%)	
Asset Class	On- Balance Sheet Amount	Off- Balance Sheet Amount	On- Balance Sheet Amount	Off- Balance Sheet Amount	RWA	RWA density (%)	RWA	RWA density (%)
Claims on Central Government and CBSL	16,919,596	-	1,535,343	-	1,535,343	7%	-	-
Claims on Foreign Sovereigns and their Central Banks	-	-	-	-	-	-	-	-
Claims on Public Sector Entities	-	-	-	-	-	-	-	-
Claims on Official Entities and Multilateral Development Banks	-	-	-	-	-	-	-	-
Claims on Banks Exposures	4,508,843	2,859,055	903,553	1,915,345	2,818,898	13%	1,676,853	9%
Claims on Financial Institutions	-	-	-	-	-	-	-	-
Claims on Corporates	9,159,302	1,627,784	8,963,595	1,596,251	10,559,846	50%	10,249,227	53%
Retail Claims	321,177	-	259,980	-	259,980	1%	54,581	0%
Claims Secured by Residential Property	99,217	-	99,217	-	99,217	0%	86,583	0%
Claims Secured by Commercial Real Estate	-	-	-	-	-	-	-	0%
Non-Performing Assets (NPAs)(i)	-	-	-	-	-	-	-	0%
Higher-risk Categories	-	-	-	-	-	0%	-	0%
Cash Items and Other Assets	1,266,846	-	1,115,840	-	1,115,840	5%	2,300,232	12%
Total	32,274,981	4,486,839	12,877,527	3,511,596	16,389,123	78%	14,367,476	68%

Credit Risk Exposure (lending to Banks) as at December 31, 2017 has increased from December 31, 2016 resulting in 68 % increase in Risk Weighted Assets for this category.

Further, due to reduced Clearing balances as at December 31, 2017 , Risk Weighted Assets has reduced by 51% in this category .

Credit Risk under Standardised Approach:

Exposures by Asset Classes and Risk Weights

in LKR'000 Description								Dec 31,2017 Post CCF & CRM	Dec 31,2016
Asset Class / Risk Weight	0%	20%	50%	75%	100%	150%	>150%	Total Credit Exposures Amount	Total Credit Exposures Amount
Claims on Central Government and Central Bank of Sri Lanka	-	1,535,343	-	-	-	-	-	1,535,343	-
Claims on Foreign Sovereigns and their Central Banks	-	-	-	-	-	-	-	-	-
Claims on Public Sector Entities	-	-	-	-	-	-	-	-	-
Claims on Official Entities and Multilateral Development Banks	-	-	-	-	-	-	-	-	-
Claims on Banks Exposures	-	902,021	940,916	-	975,961	-	-	2,818,898	1,676,853
Claims on Financial Institutions	-	-	-	-	-	-	-	-	-
Claims on Corporates	-	43,845	51,861	-	10,464,139	-	-	10,559,846	10,249,227
Retail Claims	-	-	-	183,592	76,388	-	-	259,980	54,581
Claims Secured by Residential Property	-	-	-	-	99,217	-	-	99,217	86,583
Claims Secured by Commercial Real Estate	-	-	-	-	-	-	-	-	-
Non-Performing Assets (NPAs)	-	-	-	-	-	-	-	-	-
Higher-risk Categories	-	-	-	-	-	-	-	-	-
Cash Items and Other Assets	-	-	-	-	1,115,840	-	-	1,115,840	2,300,232
Total	-	2,481,208	992,778	183,592	12,731,545	-	-	16,389,123	14,367,476

Market Risk under Standardised Measurement Method

Market Risk Exposure as at Dec 31, 2017 has not changed significantly over Dec 31, 2016 and resulting in marginal variance in Risk Weighted Assets over the period.

in LKR '000	RWA amount	
Item	Dec 31, 2017	Dec 31, 2016
(a) RWA for Interest Rate Risk	37,688	34,566
General Interest Rate Risk	-	-
(i) Net Long or Short Position	-	-
(ii) Horizontal Disallowance	-	-
(iii) Vertical Disallowance	-	-
(iv) Options	-	-
Specific Interest Rate Risk	-	-
(b) RWA for Equity	-	-
(i) General Equity Risk	-	-
(ii) Specific Equity Risk	-	-
(c) RWA for Foreign Exchange & Gold	37,688	34,566
Capital Charge for Market Risk [(a) + (b) + (c)] * CAR	335,004	307,253

Operational Risk under Basic Indicator Approach

Business Lines	Capital Charge Factor	Fixed Factor	Gross Income (LKR'000) as at Dec 31, 2017			Capital Charge Factor	Fixed Factor	Gross Income (LKR'000) as at Dec 31, 2016		
			1st Year	2nd Year	3rd Year			1st Year	2nd Year	3rd Year
The Basic Indicator Approach	15%		3,174,753	3,379,805	3,344,968	15%		4,160,710	3,174,753	3,379,805
The Standardised Approach										
Corporate Finance	18%		-	-	-	18%		-	-	-
Trading and Sales	18%		-	-	-	18%		-	-	-
Payment and Settlement	18%		-	-	-	18%		-	-	-
Agency Services	15%		-	-	-	15%		-	-	-
Asset Management	12%		-	-	-	12%		-	-	-
Retail Brokerage	12%		-	-	-	12%		-	-	-
Retail Banking	12%		-	-	-	12%		-	-	-
Commercial Banking	15%		-	-	-	15%		-	-	-
The Alternative Standardised Approach										
Corporate Finance	18%		-	-	-	18%		-	-	-
Trading and Sales	18%		-	-	-	18%		-	-	-
Payment and Settlement	18%		-	-	-	18%		-	-	-
Agency Services	15%		-	-	-	15%		-	-	-
Asset Management	12%		-	-	-	12%		-	-	-
Retail Brokerage	12%		-	-	-	12%		-	-	-
Retail Banking	12%	0.035	-	-	-	12%	0.035	-	-	-
Commercial Banking	15%	0.035	-	-	-	15%	0.035	-	-	-
Capital Charges for Operational Risk (LKR'000)										
The Basic Indicator Approach	494,976					535,763				
The Standardised Approach	-					-				
The Alternative Standardised Approach	-					-				
Risk Weighted Amount for Operational Risk (LKR'000)										
The Basic Indicator Approach	4,399,789					4,762,341				
The Standardised Approach	-					-				
The Alternative Standardised Approach	-					-				

LINKAGES BETWEEN FINANCIAL STATEMENTS AND REGULATORY EXPOSURES

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

in LKR '000 Dec 31, 2017	a Carrying Values as Reported in Published Financial Statements	b Carrying Values under Scope of Regulatory Reporting	c Subject to Credit Risk Framework	d Subject to Market Risk Framework	e Not subject to Capital Requirements or Subject to Deduction from Capital	a-b Difference between Published Financials and Regulatory Reporting	Explanation on differences between (a) and (b)
Assets	**33,985,167**	**33,997,561**					
Cash and Cash Equivalents	178,378	178,379	178,379	-	-		
Balances with Central Banks	649,921	649,921	649,921	-	-		
Placements with Banks	3,165,119	3,163,000	3,163,000	-	-	2,119	Accrued interest of placements reported under Other Assets in Regulatory Reporting
Group balances receivable	3,108,443	3,108,307	1,318,470	-	1,789,837	136	Accrued interest of placements with Group reported under Other Assets in Regulatory Reporting. Receivables from subsidiaries are subject to credit risk framework, whilst receivables from branches are either not subject to /subject to deduction from capital
Derivative Financial Instruments	3,179	-	-	-	-		This amount is classified under Other Assets in Regulatory Reporting
Other Financial Assets Held-For- Trading	-	-	-	-	-		
Financial Assets Designated at Fair Value through Profit or Loss	-	-	-	-	-		
Loans and Receivables to Banks	-	-	-	-	-		
Loans and Receivables to Other Customers	9,524,057	9,531,797	9,579,696	-	-	(7,740)	Carrying value under Regulatory Reporting is as per the Banking Act Direction No.3 of 2008 : Classification of Loans and Advances, Income Recognition and Provisioning. The carrying value of loans and advances in the published financial statements has been subjuct to impairment provisions as per LKAS 39.
Financial Investments - Available- For-Sale	16,264,562	16,264,562	16,264,562	-	-		
Financial Investments - Held-To- Maturity	-	-	-	-	-		
Investments in Subsidiaries	-	-	-	-	-		
Investments in Associates and Joint	-	-	-	-	-		
Property, Plant and Equipment	64,775	64,775	64,775	-	-		
Investment Properties	-	-	-	-	-		
Goodwill and Intangible Assets	-	-	-	-	-		
Deferred Tax Assets	17,249	36,288	-	-	17,249	(19,039)	Due to tax effects on unrealized/gains losses of AFS instruments being accounted in OCI in the reported Published Financial Statements.
Other Assets	1,009,484	1,000,532	1,000,532	-	-	8,952	Derivative Financial instruments and interest receivable on financial assets are included in other assets in Regulatory Reporting.

in LKR '000 Dec 31, 2017	a Carrying Values as Reported in Published Financial Statements	b Carrying Values under Scope of Regulatory Reporting	c Subject to Credit Risk Framework	d Subject to Market Risk Framework	e Not subject to Capital Requirements or Subject to Deduction from Capital	a-b Difference between Published Financials and Regulatory Reporting	Explanation on differences between (a) and (b)
Liabilities	**33,985,167**	**33,997,560**					
Due to Banks	714,547	700,000	N/A	N/A	N/A	14,547	Accrued interest of borrowings reported under Other Liabilities in Regulatory Reporting.
Derivative Financial Instruments	4,265	-	N/A	N/A	N/A	4,265	This amount is classified under Other Liabilities in Regulatory Reporting
Other Financial Liabilities Held-For- Trading	-	-	N/A	N/A	N/A		
Financial Liabilities Designated at Fair	-	-	N/A	N/A	N/A		
Due to Other Customers	11,560,750	11,547,608	N/A	N/A	N/A	13,142	Accrued interest on deposits reported under Other Liabilities in Regulatory Reporting.
Other Borrowings	-	-	N/A	N/A	N/A		
Debt Securities Issued	-	-	N/A	N/A	N/A		
Current Tax Liabilities	580,598	627,440	N/A	N/A	N/A	(46,842)	Published Financial Statements considers Tax effects considering SLFRS impact
Deferred Tax Liabilities	-	-	N/A	N/A	N/A		
Other Provisions	104,148	104,148	N/A	N/A	N/A		
Other Liabilities	405,877	1,789,558.0	N/A	N/A	N/A	(1,383,681)	Regulatory Reporting includes Head Office expenses payable to Group, derivative financial instruments and accrued interest payable all of which are disclosed under separate categories in Published Financial Statements and also includes net effect of Loan loss provisioning adjustments (provisioning under Regulatory Directive vs. SLFRS)
Group balances payable	9,244,766	7,821,851	N/A	N/A	7,821,851	1,422,915	Head Office expenses payable to Group and accrued interest payable on Group borrowings reported under Other liabilities in Regulatory Reporting
Off-Balance Sheet Liabilities							
Guarantees	7,830,306	7,830,306	7,830,306	-	-	-	
Performance Bonds	-	-	-	-	-	-	
Letters of Credit	3,082,335	3,082,335	3,082,335	-	-	-	
Other Contingent Items	2,063,058	4,288,543	2,767,218	-	-	(2,225,485)	Fx spot/forward contracts are reported net in Published Financial Statements
Undrawn Loan Commitments	17,897,317	17,897,317	17,897,317	-	-	-	
Other Commitments	46,001	46,001	46,001	-	-	-	

in LKR '000	a	b	c	d	e	a-b	
Dec 31, 2017	Carrying Values as Reported in Published Financial Statements	Carrying Values under Scope of Regulatory Reporting	Subject to Credit Risk Framework	Subject to Market Risk Framework	Not subject to Capital Requirements or Subject to Deduction from Capital	Difference between Published Financials and Regulatory Reporting	Explanation on differences between (a) and (b)
Shareholders' Equity						-	
Equity Capital (Stated Capital)/Assigned	4,410,461	4,410,461	N/A	N/A	N/A	-	
of which Amount Eligible for CET1	4,410,461	4,410,461	N/A	N/A	N/A	-	
of which Amount Eligible for AT1	-	-	N/A	N/A	N/A	-	
Retained Earnings	2,152,608	2,195,796	N/A	N/A	N/A	(43,188)	Accumulated SLFRS adjustments In Published Financial Statements
Accumulated Other Comprehensive Income	11,964	-	N/A	N/A	N/A	11,964	Reported in Other Reserves in Regulatory reporting
Other Reserves	4,795,183	4,800,698	N/A	N/A	N/A	(5,515)	Regulatory Reporting includes OCI and exchange equalisation of Capital
Total Shareholders' Equity	**11,370,216**	11,406,955	N/A	N/A	N/A		

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

Financial Instruments carried at Fair Value

Valuation Methods and Control

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

RISK MANAGMENT

Risk Management Approach

DB Colombo's risk management framework

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

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

The Strategic and Capital Plan translates DB Colombo's long-term strategy into measurable short to mid-term financial targets and enables intra-year performance management. The Strategic and Capital Plan ensures alignment of earnings, 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)

Committee Structure of DB Colombo					
DB Colombo Executive Committee		DB Colombo Operating Committee		DB Colombo Asset and Liability Committee	
Chair	Frequency	Chair	Frequency	Chair	Frequency
CCO	Monthly	COO	Monthly	Treasurer	Monthly

Overview of functional committees with risk-focus at DB Colombo

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

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

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

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

Country Chief Operating and Risk Officer

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

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

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

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

Three Lines of Defence (3LoD)

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

– The 1st Line of Defense ("1st LoD") refers to those roles in the Bank whose activities generate risks, whether financial or non-financial.

– The 2nd Line of Defense ("2nd LoD") refers to the risk type controller roles in the Bank who facilitate the implementation of a sound risk management framework throughout the organization. The 2nd LoD defines the risk appetite and risk management and control standards for their risk type, and independently oversees and challenges the risk taking and risk management activities of the 1st LoD.

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

Risk measurement

Overview of DB Colombo's risk measurement practice

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

DB Colombo's internal risk measures 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).

Stress Testing governance and processes

Benchmark stress tests

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

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

Credit risk stress testing

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

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

Liquidity risk stress testing

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

Market risk stress testing

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

Operational risk stress testing

The Bank is fully integrated into the Group's operational risk management framework, and as such performs operational risk stress tests on a regular basis. The local stress test framework is derived from DB's global stress testing framework.
Group Operational Risk translates the Group operational risk stress impact into DB operational risk factors for EC and Regulatory Capital (RC) respectively. The stressed operational risk factors for EC and RC are calculated on a quarterly basis by translating the macro economic assumptions of the Global Downturn scenario into expert based 'workable' operational risk assumptions and applied on legal entity level.

Credit Risk Mitigation Techniques

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

Mitigation of credit risk on counterparty level

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

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

Collateral

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

DB Colombo segregate collateral received into the following two types:

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

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

Risk transfers

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

Concentrations within CR mitigation

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

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

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

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

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

Testing the CFP

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

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

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

Operational Risk Mitigation techniques

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.

Contingency plans to handle failure and situations:

Business Process Disruption Risk is the risk of failure in the business' ability to resume relevant business activities after disruptions affecting people, infrastructure, assets and operations. Within Non-Financial Risk Management (NFRM), Operational Resilience Risk 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.

Risk Management Related to Key Risk Exposures

i) Credit Risk

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

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

In TLKR	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

Source : Audited accounts:

(a) (ii) 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

(a) (iii) Sector wise distribution of exposures, broken down by major types of credit exposure

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

(a) (iv) Residual contractual maturity breakdown of the 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

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

Impairment of Loans and Provision for Off-Balance Sheet Positions

DB Colombo 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 Statement of Income 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 DB 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 Statement of Income 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 DB Colombo, 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 DB Colombo'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 Statement of Income 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 Statement of Income as a component of the provision for credit 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 DB Colombo's results of operations.

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

For those 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. Regular review of the models and underlying data and assumptions are performed. The probability of defaults, loss recovery rates and judgments concerning ability of borrowers in foreign countries to transfer the foreign currency necessary to comply with debt repayments, amongst other things, are incorporated into this review.

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

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

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

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

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

(b)General Provision

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

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

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	9,579,636		9,579,636	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 biils	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.

- None of the above exposures (on & off b/s) are individually impaired
- Maturity analysis provided under Market Risk & Liquidity Risk

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

Please refer combined table under c).

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

In TLKR 31st December 2017	Gross Out standing balance	Impairment as per financial reporting		Impairment as per regulatory reporting		Net exposure as per financial reporting	Net exposure as per financial reporting
		Specific	Collective	Specific	Collective		
Balances with Central Bank of Sri Lanka	649,921	-	-	-	-	649,921	649,921
Balances with Banks & Financial Institutions	27,373	-	-	-	-	27,373	27,373
Placements with Banks	3,165,119	-	-	-	-	3,165,119	3,165,119
Gropup balances receivable	3,108,443	-	-	-	-	3,108,443	3,108,443
Investment in Government Securities	16,262,962	-	-	-	-	16,262,962	16,262,962
Other investments	1,600	-	-	-	-	1,600	1,600
Loans and Advances	9,579,696	-	55,639	-	47,898	9,524,057	9,531,798
Total on-balance sheet items	32,795,114	-	55,639	-	47,898	32,739,475	32,747,216
						-	-
Letters of credit	3,082,335	-	-	-	-	3,082,335	3,082,335
Guarantees	7,830,306	-	-	-	-	7,830,306	7,830,306
Acceptances	708,022	-	-	-	-	708,022	708,022
Derivatives (gross)	(234)	-	-	-	-	(234)	(234)
Undrawn credit lines	17,896,826	-	-	-	-	17,896,826	17,896,826
Other	46,001	-	-	-	-	46,001	46,001
Total off-balance sheet items	29,563,256	-	-	-	-	29,563,256	29,563,256

In TLKR 31st December 2016							
Balances with Central Bank of Sri Lanka	1,527,673	-	-	-	-	1,527,673	1,527,673
Balances with Banks & Financial Institutions	26,157	-	-	-	-	26,157	26,157
Placements with Banks	2,876,325	-	-	-	-	2,876,325	2,876,325
Group balances receivable	3,857,143	-	-	-	-	3,857,143	3,857,143
Investment in Government Securities	18,473,191	-	-	-	-	18,473,191	18,473,191
Other investments	1,600	-	-	-	-	1,600	1,600
Loans and Advances	10,570,559	-	71,398	-	52,853	10,499,161	10,517,706
Total on-balance sheet items	37,332,648	-	71,398	-	52,853	37,261,250	37,279,795
Letters of credit	2,991,839	-	-	-	-	2,991,839	2,991,839
Guarantees	6,885,070	-	-	-	-	6,885,070	6,885,070
Acceptances	529,067	-	-	-	-	529,067	529,067
Derivatives (gross)	(90,506)	-	-	-	-	(90,506)	(90,506)
Undrawn credit lines	14,512,103	-	-	-	-	14,512,103	14,512,103
Other	150,430	-	-	-	-	150,430	150,430
Total off-balance sheet items	24,978,003	-	-	-	-	24,978,003	24,978,003

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

N/A

ii) **Market Risk**

a) **Interest Rate Risk** - Interest rate sensitivity gap analysis for contractual and 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	-	-	-	-	-	-	-	-	-	-	-	-	-	142	142
2	Deposits with CBSL	-	-	-	-	-	-	-	-	-	-	-	-	-	650	650
3	Balances due from HO/Affiliates/Branches	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4	Balances due from Other Banks	3,163	-	-	-	-	-	-	-	-	-	-	-	-	-	3,163
5	Investments	2,748	500	5,344	-	-	-	-	-	-	-	-	-	-	2	8,595
6	Bills of Exchange and Promissory Notes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7	Overdrafts	381	381	381	763	1,059	-	1,059	-	1,059	-	-	-	-	-	5,084
8	Loans and Advances	589	560	8	1	4	53	6	7	15	14	28	31	-	-	1,316
9	Non Performing Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	Fixed Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	65	65
11	Net Inter-branch Transactions	-	-	-	-	-	-	-	-	-	-	-	-	-	35	35
12	Accrued Interest	-	-	-	-	-	-	-	-	-	-	-	-	-	70	70
13	Other Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	907	907
14	Reverse Repos	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
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	-	-	-	-	-	-	-	-	-	-	-	-	-	4,312	4,312
2	Savings Deposits	89	89	89	179	224	224	224	224	447	-	-	-	-	-	1,789
3	Time Deposits	1,178	35	309	-	-	-	-	2	-	-	-	-	-	-	1,525
4	Other Deposits	378	-	-	-	-	-	-	-	-	-	-	-	-	-	378
5	Balances due to HO/Affiliates/Branches	-	-	-	-	-	-	-	-	-	-	-	-	-	5	5
6	Balance due to other Banks	700	-	-	-	-	-	-	-	-	-	-	-	-	-	700
7	Certificate of Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8	Other Borrowings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	Net Inter-branch Transactions	-	-	-	-	-	-	-	-	-	-	-	-	-	1,328	1,328
10	Bills Payable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	Interest Payable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12	Provisions (Others)	-	-	-	-	-	-	-	-	-	-	-	-	-	1,080	1,080
13	Capital	-	-	-	-	-	-	-	-	-	-	-	-	-	3,608	3,608
14	Reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	4,142	4,142
15	Retained Earnings + Current year Profits	-	-	-	1,548	-	-	-	-	-	-	-	-	-	-	1,548
16	Subordinate Debts	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
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/PY)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
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

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

N/A

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

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

Currency	Spot Assets	Spot Liabilities	Spot Net	Forward(a) Assets	Forward(a) Liabilities	Forward(a) 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%

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

iii) **Liquidity Risk**

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

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

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

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%

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

Maturities of Assets and Liabilities (MAL)

(Currency - LKR mio)
As at 31 Dec 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%

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

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

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

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

Liquidity Risk Monitoring of Limits and Concentrations

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

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

- **Intra-group funding** lines and utilisation: DB Colombo obtains funding lines from DB Group when required. DB Group performs appropriate stress tests to assess its liquidity requirement to ensure sufficient liquidity can be provided.

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

- **Liability Diversification Target:** External liabilities are raised through Deutsche Bank AG, Colombo Branch. The ALCO approves the funding plan on an annual basis. Large fund (Top 10 depositors) providers: max. 25% for warning level, 30% for trigger level of the balance sheet Compliance with the threshold is monitored via the ALCO. In case the above concentration ratio is exceeded, ALCO will review whether funding alternatives are required.

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

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

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

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

iv) **Operational Risk**

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

There have been no major operational viz. system or human, failures and financial losses incurred by the 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.

v) **Interest Rate risk in the Banking Book (IRRBB)**

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