



Deutsche Bank AG, Colombo Branch  
Pillar 3 Disclosures  
as at December 31, 2018

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# INTRODUCTION

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

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

DB Group offers a wide variety of investment, financial and related products and services to private individuals, corporate entities and institutional clients around the world and organized under three divisions : Corporate & 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 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](http://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	Previous Reporting Period
	Dec 31, 2018	Dec 31, 2017
<b>Regulatory Capital (LKR '000)</b>		
Common Equity Tier 1, adjusted	9,934,623	10,913,782
Tier 1 Capital	9,934,623	10,913,782
Total Capital	9,934,623	10,913,782
<b>Regulatory Capital Ratios (%)</b>		
Common Equity Tier 1 Capital Ratio ( <i>Minimum Requirement - 6.375%</i> )	36.60%	51.67%
Tier 1 Capital Ratio ( <i>Minimum Requirement - 7.875%</i> )	36.60%	51.67%
Total Capital Ratio ( <i>Minimum Requirement - 11.875%</i> )	36.60%	51.67%
<b>Regulatory Liquidity</b>		
Statutory Liquid Assets (LKR'000)	28,217,603	31,163,892
Statutory Liquid Assets Ratio ( <i>Minimum Requirement - 20%</i> )		
Domestic Banking Unit (%)	105.19%	98.96%
Off-Shore Banking Unit (%)	98.93%	101.31%
Liquidity Coverage Ratio (%) – Rupee ( <i>Minimum Requirement - 90%</i> )	724.59%	1021.01%
Liquidity Coverage Ratio (%) – All Currency ( <i>Minimum Requirement - 90%</i> )	338.17%	730.76%

## Basel III Computation of Capital Ratios

in LKR '000

Item	Reporting Period	Previous Reporting Period
	Dec 31, 2018	Dec 31, 2017
<b>Common Equity Tier 1 (CET1) Capital after Adjustments</b>	<b>9,934,623</b>	<b>10,913,782</b>
<b>Common Equity Tier 1 (CET1) Capital</b>	<b>9,921,584</b>	<b>10,925,881</b>
Equity Capital (Stated Capital)/Assigned Capital	4,410,461	4,410,461
Reserve Fund	641,506	619,600
Published Retained Earnings/(Accumulated Retained Losses) *	1,126,404	2,152,607
Published Accumulated Other Comprehensive Income (OCI)	-	-
General and other Disclosed Reserves	3,743,213	3,743,213
Unpublished Current Year's Profit/Loss and Gains reflected in OCI	-	-
Ordinary Shares issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	-
<b>Total Adjustments to CET1 Capital</b>	<b>13,039</b>	<b>(12,099)</b>
Goodwill (net)	-	-
Intangible Assets (net)	-	-
Others (Deferred Tax Assets, Vostro)	13,039	(12,099)
<b>Additional Tier 1 (AT1) Capital after Adjustments</b>	<b>-</b>	<b>-</b>
<b>Additional Tier 1 (AT1) Capital</b>	<b>-</b>	<b>-</b>
Qualifying Additional Tier 1 Capital Instruments	-	-
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	-
<b>Total Adjustments to AT1 Capital</b>	<b>-</b>	<b>-</b>
Investment in Own Shares	-	-
Others (specify)	-	-
<b>Tier 2 Capital after Adjustments</b>	<b>-</b>	<b>-</b>
<b>Tier 2 Capital</b>	<b>-</b>	<b>-</b>
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	-	-
<b>Total Adjustments to Tier 2</b>	<b>-</b>	<b>-</b>
Investment in Own Shares	-	-
Others (specify)	-	-
<b>CET1 Capital</b>	<b>9,934,623</b>	<b>10,913,782</b>
<b>Total Tier 1 Capital</b>	<b>9,934,623</b>	<b>10,913,782</b>
<b>Total Capital</b>	<b>9,934,623</b>	<b>10,913,782</b>

in LKR '000

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

Total Capital Ratio decreased by 15.06 % points as a result of increased Risk Weighted Assets of LKR 6 bn mainly from increased credit risk exposure (higher lending to corporates) as at 31 December 2018 and reclassification of certain guarantees to the 100 % risk weight category commencing 30 September 2018. Capital Base decreased since 31 December 2017 due to repatriation of 2016 & 2017 retained earnings of LKR 1.48 bn.

Increase in market risk observed over 31st December 2018 due to change of basis of computation to exclude US dollar based capital in foreign exchange risk exposure commencing 30 September 2018.

## Basel III Computation of Liquidity Coverage Ratio (All currency)

in LKR '000	Reporting Period		Previous Reporting Period	
	Dec 31, 2018		Dec 31, 2017	
	Total	Total	Total	Total
Item	Un-weighted Value	Weighted Value	Un-weighted Value	Weighted Value
<b>Total Stock of High-Quality Liquid Assets (HQLA)</b>	-	8,335,633	-	8,743,968
<b>Total Adjusted Level 1A Assets</b>	-	8,335,633	-	8,743,968
<b>Level 1 Assets</b>	-	8,335,633	-	8,743,968
<b>Total Adjusted Level 2A Assets</b>	-	-	-	-
<b>Level 2A Assets</b>	-	-	-	-
<b>Total Adjusted Level 2B Assets</b>	-	-	-	-
<b>Level 2B Assets</b>	-	-	-	-
<b>Total Cash Outflows</b>	32,624,243	9,859,822	38,596,836	4,786,226
Deposits	323,401	35,933	675,100	2,624
Unsecured Wholesale Funding	10,186,907	9,173,864	7,653,549	4,073,097
Secured Funding Transactions	-	-	-	-
Undrawn Portion of Committed (Irrevocable) Facilities and Other Contingent Funding Obligations	22,113,935	550,395	30,268,187	651,098
Additional Requirements	-	99,630	-	59,407
<b>Total Cash Inflows</b>	8,003,400	12,610,701	5,972,210	8,335,546
<b>Maturing Secured Lending Transactions Backed by Collateral</b>	-	-	-	-
<b>Committed Facilities</b>	-	-	-	-
<b>Other Inflows by Counterparty which are Maturing within 30 Days</b>	5,612,259	12,521,259	4,021,578	8,335,078
Operational Deposits	2,306,412	-	1,950,631	-
Other Cash Inflows	84,730	89,443	-	467
<b>Liquidity Coverage Ratio (%) (Stock of High Quality Liquid Assets/Total Net Cash Outflows over the Next 30 Calendar Days) * 100</b>		338.17		730.76

Decrease in Liquidity Coverage Ratio by 54% in December 2018 is because of the increase in both Cash Outflows and Cash Inflows.

Increase in Cash Inflows from Loan facilities and placements at Central Banks, Banks and Financial institutions.

Increase in Cash Outflows from Customer Deposit base and Borrowings from DB Singapore.

## Main features of Regulatory Capital Instruments

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



# RISK WEIGHTED ASSETS (RWA)

## Summary discussion on adequacy/meeting current and future capital requirements

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

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

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

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

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

The planning process allows DB Colombo to:

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

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

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

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

Credit risk, market risk and operational risk attract regulatory capital. As part of our internal capital adequacy assessment process, we calculate the amount of economic capital for credit, market, operational and business risk to cover risks generated from our business activities taking into account diversification effects across those risk types. Furthermore, our

economic capital framework embeds additional risks, e.g. reputational risk and refinancing risk, for which no dedicated economic capital models exist. We exclude liquidity risk from economic capital.

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

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

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

The planning process allows DB Colombo to:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### **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

Asset Class	in LKR '000						Dec 31, 2018			Dec 31, 2017		
	Exposures before Credit Conversion Factor (CCF) and CRM			Exposures post CCF and CRM			RWA and RWA Density (%)			RWA and RWA Density (%)		
	On- Balance Sheet Amount	Off- Balance Sheet Amount	On- Balance Sheet Amount	Off- Balance Sheet Amount	On- Balance Sheet Amount	Off- Balance Sheet Amount	RWA	RWA density (%)	RWA	RWA density (%)	RWA	RWA density (%)
Claims on Central Government and CBSL	17,715,801	-	1,463,600	-	1,463,600	-	1,463,600	5%	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	4,250,658	3,667,270	1,677,631	2,697,412	4,375,043	16%	2,818,898	13%	-	-	-	-
Claims on Financial Institutions	-	-	-	-	-	-	-	-	-	-	-	-
Claims on Corporates	11,601,460	2,178,648	11,590,298	1,286,124	12,876,423	47%	10,559,846	50%	-	-	-	-
Retail Claims	260,142	-	215,928	-	215,928	1%	259,980	1%	-	-	-	-
Claims Secured by Residential Property	120,627	-	120,627	-	120,627	0%	99,217	0%	-	-	-	-
Claims Secured by Commercial Real Estate	-	-	-	-	-	-	-	-	-	-	-	-
Non-Performing Assets (NPAs)(i)	-	-	-	-	-	-	-	-	-	-	-	-
Higher-risk Categories	-	-	-	-	-	-	-	-	-	-	-	-
Cash Items and Other Assets	2,274,611	-	2,223,158	-	2,223,158	8%	1,115,840	5%	-	-	-	-
<b>Total</b>	<b>36,223,299</b>	<b>5,845,918</b>	<b>17,291,243</b>	<b>3,983,536</b>	<b>21,274,779</b>	<b>78%</b>	<b>16,389,123</b>	<b>60%</b>				

Credit Risk Exposure (lending to Corporates) as at December 31, 2018 has increased from December 31, 2017 due to 22% increase in customer lending portfolio, 55% increase in RWA on bank exposures and reclassification of certain guarantees to the 100% risk weight category commencing 30 September 2018.

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

in LKR'000									Dec 31, 2018	Dec 31, 2017
Description		Post CCF & CRM							Total Credit Exposures Amount	Total Credit Exposures Amount
Asset Class	Risk Weight	0%	20%	50%	75%	100%	150%	>150%		
Claims on Central Government and Central Bank of Sri Lanka	-	1,463,600	-	-	-	-	-	-	1,463,600	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	-	299,179	2,346,170	-	1,729,695	-	-	-	4,375,043	2,818,898
Claims on Financial Institutions	-	-	-	-	-	-	-	-	-	-
Claims on Corporates	-	212,287	54,539	-	12,609,597	-	-	-	12,876,423	10,559,846
Retail Claims	-	-	-	132,644	83,284	-	-	-	215,928	259,980
Claims Secured by Residential Property	-	-	-	-	120,627	-	-	-	120,627	99,217
Claims Secured by Commercial Real Estate	-	-	-	-	-	-	-	-	-	-
Non-Performing Assets (NPAs)	-	-	-	-	-	-	-	-	-	-
Higher-risk Categories	-	-	-	-	-	-	-	-	-	-
Cash Items and Other Assets	-	-	-	-	2,223,158	-	-	-	2,223,158	1,115,840
<b>Total</b>	-	<b>1,975,065</b>	<b>2,400,709</b>	<b>132,644</b>	<b>16,766,361</b>	-	-	-	<b>21,274,779</b>	<b>16,389,124</b>

## Market Risk under Standardised Measurement Method

in LKR '000	RWA amount	
Item	Dec 31, 2018	Dec 31, 2017
<b>(a) RWA for Interest Rate Risk</b>	-	-
General Interest Rate Risk	-	-
(i) Net Long or Short Position	-	-
(ii) Horizontal Disallowance	-	-
(iii) Vertical Disallowance	-	-
(iv) Options	-	-
Specific Interest Rate Risk	-	-
<b>(b) RWA for Equity</b>	-	-
(i) General Equity Risk	-	-
(ii) Specific Equity Risk	-	-
<b>(c) RWA for Foreign Exchange &amp; Gold</b>	<b>205,772</b>	<b>37,688</b>
<b>Capital Charge for Market Risk [(a) + (b) + (c)] * CAR</b>	<b>1,732,817</b>	<b>335,004</b>

Increase in market risk observed over 31st December 2018 due to change of basis of computation to exclude US dollar based capital in foreign exchange risk exposure commencing 30 September 2018.

## Operational Risk under Basic Indicator Approach

Business Lines	Capital Charge Factor	Gross Income (LKR'000) as at Dec 31, 2018			Capital Charge Factor	Gross Income (LKR'000) as at Dec 31, 2017			
		Fixed Factor	1st Year	2nd Year		3rd Year	Fixed Factor	1st Year	2nd Year
<b>The Basic Indicator Approach</b>	15%		3,379,805	3,344,968	15%		3,174,753	3,379,805	3,344,968
<b>The Standardised Approach</b>									
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%		-	-	-
<b>The Alternative Standardised Approach</b>									
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%		-	-	-
Commercial Banking	15%	0.035	-	-	15%		-	-	-
<b>Capital Charges for Operational Risk (LKR'000)</b>									
The Basic Indicator Approach	490,777							494,976	
The Standardised Approach	-				-			-	
The Alternative Standardised Approach	-				-			-	
<b>Risk Weighted Amount for Operational Risk (LKR'000)</b>									
The Basic Indicator Approach	4,132,861							4,399,789	
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

	a	b	c	d	e	a-b	Explanation on differences between (a) and (b)
	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	
<b>in EUR '000</b>							
<b>Dec 31 2018</b>							
0							
<b>Assets</b>	<b>41,116,050</b>	<b>41,107,676</b>					
Cash and cash equivalents	67,663	67,664	67,664	-	-	-	
Balances with Central Banks	2,607,527	2,607,516	2,607,516	-	-	-	
Placements with Banks	3,200,611	3,200,000	3,200,000	-	-	-	
Placements with Branches	3,659,242	3,659,000	-	-	3,659,000	611	Accrued interest of placements reported under Other Assets in Regulatory Reporting
Securities borrowed	-	-	-	-	-	242	
Derivative financial instruments	7,554	-	-	-	-	7,554	This amount is classified under Other Assets in Regulatory Reporting
Group balances receivable	2,382,315	2,382,310	1,126,561	-	1,255,753	2	
Financial assets recognized through profit or loss	-	-	-	-	-	-	
- measured at fair value	-	-	-	-	-	-	
- designated at fair value	-	-	-	-	-	-	
Financial assets at amortised cost	-	-	-	-	-	-	
- loans and advances	11,977,224	11,922,318	11,982,229	-	-	54,906	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 subject to impairment provisions as per SIFRS 9.
- debt and other instruments	-	-	-	-	-	-	
Financial assets measured at fair value through other comprehensive income	15,299,740	15,109,887	15,109,887	-	-	189,853	Reclassification of coupon interest receivable from other assets to Financial assets measured at fair value through other comprehensive income
Securities held to maturity	-	-	-	-	-	-	
Investments in subsidiaries	-	-	-	-	-	-	
Investments in associates and joint ventures	-	-	-	-	-	-	
Property, plant and equipment	50,388	50,388	50,388	-	-	(0)	
Investment properties	-	-	-	-	-	-	
Goodwill and intangible assets	-	-	-	-	-	-	
Assets for current tax	24,824	24,302	-	-	24,824	522	Due to tax effects on unrealized/gains losses of AFS instruments being accounted in OCI in the reported Published Financial Statements.
Deferred tax assets	-	-	-	-	-	-	
Other assets	1,638,962	2,084,287	2,084,287	-	-	(245,325)	Derivative financial instruments and interest receivable on financial assets are included in other assets in Regulatory Reporting.

in LKR 000	a	b	c	d	e	a-b	Explanation on differences between (a) and (b)
Dec 31, 2018	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	
<b>Liabilities</b>	<b>41,116,050</b>	<b>41,107,676</b>					
Due to banks	-	-	N/A	N/A	N/A		
Due to branches	11,773,090	11,676,235			11,676,235	96,855	Accrued interest of borrowings reported under Other Liabilities in Regulatory Reporting.
Derivative financial instruments	5,583	-	N/A	N/A	N/A	5,583	This amount is classified under Other Liabilities in Regulatory Reporting
Financial liabilities designated at fair value through							
- measured at fair value	-	-	N/A	N/A	N/A	-	
- designated at fair value	-	-	N/A	N/A	N/A	-	
Financial liabilities at amortised cost							
- due to depositors	15,331,658	15,322,988	N/A	N/A	N/A	8,660	Accrued interest on deposits reported under Other Liabilities in Regulatory Reporting.
- due to debt securities holders	-	-	N/A	N/A	N/A	-	
- due to other borrowers	-	-	N/A	N/A	N/A	-	
Debt securities issued	-	-	N/A	N/A	N/A	-	
Retirement benefit obligations	113,989	113,989	N/A	N/A	N/A	-	
Current tax liabilities	586,002	687,213	N/A	N/A	N/A	(101,211)	Published Financial Statements considers Tax effects considering SLFRS impact
Deferred tax liabilities	-	-	N/A	N/A	N/A	-	
Long term debts	-	-	N/A	N/A	N/A	-	
Other provisions	-	-	N/A	N/A	N/A	-	
Other liabilities	422,929	483,485	N/A	N/A	N/A	(60,556)	Regulatory Reporting includes derivative financial instruments and accrued interest payable all of which are disclosed under separate categories in Published Financial Statements and also includes net effect of Loan loss provisioning adjustments (provisioning under Regulatory Directive vs. SLFRS )
Group balances payable	2,181,843	2,181,841			38,863	2	
<b>Off-Balance Sheet Liabilities</b>							
Guarantees	8,342,955	8,342,955			-	-	
Performance Bonds	-	-			-	-	
Letters of Credit	1,054,286	1,054,286			-	-	
Other Contingent Items	1,609,988	2,348,324			-	(738,336)	Fx spot/forward contracts are reported net in Published Financial Statements
Undrawn Loan Commitments	11,656,433	11,656,433			-	-	
Other Commitments	-	-			-	-	



in LKR '000	a	b	c	d	e	a-b	
Dec 31, 2018	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)
<b>Shareholders' Equity</b>							
Equity Capital (Stated Capital)/Assigned Capital	4,410,461	4,410,461	N/A	N/A	N/A	(0)	
of which Amount Eligible for CET1	4,410,461	4,410,461	N/A	N/A	N/A	(0)	
of which Amount Eligible for AT1	-	-	N/A	N/A	N/A	-	
Retained Earnings	1,126,404	1,108,821	N/A	N/A	N/A	17,583	Accumulated SLFRS adjustments in Published Financial Statements
Accumulated Other Comprehensive Income	(6,615)	-	N/A	N/A	N/A	(6,615)	Reported in Other Reserves in Regulatory reporting
Other Reserves	5,170,706	5,122,633	N/A	N/A	N/A	48,073	Regulatory Reporting includes OCI and exchange equalisation of Capital
<b>Total Shareholders' Equity</b>	<b>10,700,956</b>	<b>10,641,916</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>		

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 MANAGEMENT

## 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

#### Branch Management Board (BmB)

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

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

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

### Overview of functional committees with risk-focus at DB Colombo

- The Branch Management Board (BmB) and the Asset and Liability Committee (ALCO), identifies, controls and manages all risks including risk concentrations of DB Colombo. It is responsible for risk policy, the organisation and governance of risk management as well as ensuring the oversight of the execution of risk and capital management including identification, analysis and risk mitigation, within the scope of the risk and capital strategy (Risk & Capital Demand Plan) approved by the Management Board. The Branch Management Board (BmB) and Asset and Liability Committee (ALCO) are responsible for oversight on risk portfolios and policies.
- The Branch Management Board (BmB) oversees, governs and coordinates the management of non-financial risks of DB Colombo and establishes a cross-risk and holistic perspective of the key non-financial risks of DB Colombo. It is tasked to define the non-financial risk appetite tolerance framework, to monitor and control the non-financial risk operating model, including the Three Lines of Defence principles and interdependencies between (i) Business Divisions and Control Functions and (ii) different Control Functions.
- The Asset and Liability Committee (ALCO) has responsibility for the alignment of risk appetite, capitalisation requirements and funding needs of DB Colombo with Group-wide, divisional and sub-divisional business strategies. It steers efficient capital consumption by determining capital availability in support of divisional business portfolios, capital earmarked for fresh investments, as well as other uses.

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

### Country Chief Operating and Risk Officer

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

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

### Risk management by risk types

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

### Risk Management beyond Risk Functions

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

## Risk identification & assessment

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

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

The process is carried out on an annual or an ad-hoc basis if required by the Branch Management Board (BmB) which then involves the respective 1st and 2nd LoD in the identification and assessment.

The risk identification and assessment process is an integral part of DB Colombo's risk management. Particularly, it is aligned with the risk appetite framework as follows: The risk appetite is articulated on a universal level in terms of capital and liquidity ratios and supplemented by risk type specific risk appetites

## Key risk Types

### Credit Risk

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

The below dimensions are the key drivers for credit risk:

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

### Market Risk

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

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

### Liquidity Risk

Liquidity risk is defined as the risk arising from the potential inability to meet all payment obligations when they fall due or only being able to meet these obligations at excessive costs. The objective of the Group's liquidity risk management

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

## Operational Risk

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

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

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

## Interest Rate Risk in Banking book

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

## DB Colombo Risk Appetite

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

## Qualitative Statements

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

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

## Key risk appetite metrics

DB Colombo assigns six key risk appetite metrics that are sensitive to its material risks. These metrics are:

- Common Equity Tier 1 (CET1) ratio
- Total capital adequacy ratio
- Economic Capital Adequacy (ECA) ratio
- Liquidity Coverage Ratio (LCR)
- Stressed Net Liquidity Position (sNLP)
- Funding Matrix (FM)

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

**Principle 1:** Metrics are embedded in risk management processes and practices, are managed and monitored via associated governance frameworks so that they are fully integrated into day-to-day risk management.

**Principle 2:** Metrics are clearly and unambiguously defined as well as fully compliant with regulatory requirements. In particular, the significance of a metric in representing the financial health of the organization and its relationship with other metrics has to be transparent and meaningful.

**Principle 3:** Risk appetite metrics are assessed in regular stress-testing processes. Stress test results are also monitored and subject to an escalation process in case of specific threshold breaches.

**Principle 4:** Metrics are relevant to the Bank's activities and are sensitive to the material risk types the Bank is exposed to.

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

## Monitoring of risk appetite

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

## Escalation mechanism

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

## Risk culture

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

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

## Three Lines of Defence (3LoD)

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

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

## Risk measurement

### Overview of DB Colombo's risk measurement practice

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

Capital (EC) captures the portfolio specifics and risk management practices vs. the minimum requirements of the generically applicable regulatory models.

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

The following principles define bank's internal risk measurement practice

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

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

### **Risk Reporting and Monitoring**

DB Colombo's risk reporting is aligned throughout the organisation to support DB Colombo's risk management framework and in particular the risk management processes and activities. The DB Colombo Risk & Capital Profile Report is presented to the Branch Management Board (BmB) on a quarterly basis. It comprises an overview of the current profit and loss, risk, capital and liquidity status of DB Colombo, also incorporating information on regulatory capital and economic capital adequacy. Relevant stress testing results are also included in this report on a regular basis.

Senior DB Colombo risk/executive committees also receive supplemental regular reporting (as well as ad-hoc reporting as required), if deemed relevant by the CRO/Treasurer of DB Colombo or if required due to Group policies. Reporting as such includes but is not limited to

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

### **Stress Testing governance and processes**

#### **Benchmark stress tests**

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

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

#### **Credit risk stress testing**

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

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

For non-rated portfolios DB Colombo defines adequate credit risk stress tests in close coordination with the central ICAAP team and the respective Group function.



## Liquidity risk stress testing

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

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

## Market risk stress testing

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

## Operational risk stress testing

The 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 group operational risk stress impact into DB operational risk factors for EC and respective RC which are applied to the bank's local EC and RC figures. 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.

## Credit Risk Mitigation Techniques

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

## Mitigation of credit risk on counterparty level

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

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

## Collateral

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

DB Colombo segregate collateral received into the following two types:

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

DB Colombo's processes seek to ensure that the collateral that is accept for risk mitigation purposes is of high quality. This includes seeking to have in place legally effective and enforceable documentation for realizable and measureable collateral assets which are evaluated regularly by dedicated teams. The assessment of the suitability of collateral for a specific transaction is part of the credit decision and must be undertaken in a conservative way, including collateral

haircuts that are applied. There are collateral type specific haircuts in place which are regularly reviewed and approved. In this regard, "wrong-way" risk characteristics are avoided where the borrower's counterparty risk is positively correlated with the risk of deterioration in the collateral value. For guarantee collateral, the process for the analysis of the guarantor's creditworthiness is aligned to the credit assessment process for borrowers.

### ***Risk transfers***

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

### ***Concentrations within CR mitigation***

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

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

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

## **Operational Risk Mitigation techniques**

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

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

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

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

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

### Contingency plans to handle failure and situations:

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

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

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

### **Market Risk Mitigation Techniques**

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

## 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	2018 as at 31 Dec	2017 as at 31 Dec
Balances with Central bank of Sri Lanka	2,607,527	649,921
Balances with Banks & Financial Institutions	16,211	27,373
Placements with Banks	3,200,611	3,165,119
Group balances receivable	6,041,558	3,108,443
Investment in Government Securities	15,298,140	16,381,564
Other investments	1,600	1,600
<b>Loans and Advances</b>	<b>11,982,229</b>	<b>9,579,696</b>
<b>Total on-balance sheet items</b>	<b>39,147,876</b>	<b>32,913,716</b>
Letters of credit	1,054,286	3,082,335
Guarantees	8,342,955	7,830,306
Acceptances	776,842	708,022
Derivatives (net)	1,126	(234)
Usance Import bills	832,210	1,355,304
Undrawn credit lines	11,656,433	17,896,826
Other	-	46,001
<b>Total off-balance sheet items</b>	<b>22,663,852</b>	<b>30,918,560</b>

Source : Audited accounts.

**(a) (ii) Geographic distribution of exposures, broken downs in significant areas by types of credit exposure.**

As at 31st Dec 2018 In TLKR	Central P	Western P	Total Sri Lanka	Asia Pacific (excl Sri Lanka)	North & Latin America	Africa & Middle East	Europe	Others
Balances with Central bank of Sri Lanka		2,607,527	2,607,527					
Balances with Banks & Financial Institutions		-	-	7,730	1,069		7,412	
Placements with Banks		3,200,611	3,200,611					
Group balances receivable				3,753,149	1,033,369		1,255,040	
Investment in Government Securities		15,298,140	15,298,140					
Other investments		1,600	1,600					
Loans and Advances	4,143	11,978,086	11,982,229					
<b>Total on-balance sheet items</b>	<b>4,143</b>	<b>33,085,964</b>	<b>33,090,107</b>	<b>3,760,879</b>	<b>1,034,438</b>	<b>-</b>	<b>1,262,452</b>	<b>-</b>
Letters of credit		1,054,286	1,054,286					
Guarantees		1,418,229	1,418,229	3,834,656		64,033	3,026,038	
Acceptances		776,842	776,842					
Derivatives (gross)		1,126	1,126					
Usance Import bills		832,210	832,210					
Undrawn credit lines		11,656,433	11,656,433					
Other		-	-					
<b>Total off-balance sheet items</b>	<b>-</b>	<b>15,739,125</b>	<b>15,739,125</b>	<b>3,834,656</b>	<b>-</b>	<b>64,033</b>	<b>3,026,038</b>	<b>-</b>
<b>Total Exposure</b>	<b>4,143</b>	<b>48,825,089</b>	<b>48,829,233</b>	<b>7,595,535</b>	<b>1,034,438</b>	<b>64,033</b>	<b>4,288,490</b>	<b>-</b>
As at 31st Dec 2017 In TLKR	Central P	Western P	Total Sri Lanka	Asia Pacific (excl Sri Lanka)	North & Latin America	Africa & Middle East	Europe	Others
Balances with Central bank of Sri Lanka		649,921	649,921					
Balances with Banks & Financial Institutions		-	-	6,044	1,120		19,119	1,090
Placements with Banks		3,165,119	3,165,119					
Group balances receivable				1,292,063	1,317,953		498,427	
Investment in Government Securities		16,381,564	16,381,564					
Other investments		1,600	1,600					
Loans and Advances	4,586	9,575,110	9,579,696					
<b>Total on-balance sheet items</b>	<b>4,586</b>	<b>29,773,314</b>	<b>29,777,900</b>	<b>1,298,107</b>	<b>1,319,073</b>	<b>-</b>	<b>517,546</b>	<b>1,090</b>
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					
<b>Total off-balance sheet items</b>	<b>-</b>	<b>23,379,753</b>	<b>23,379,753</b>	<b>4,789,488</b>	<b>-</b>	<b>931</b>	<b>2,720,846</b>	<b>27,542</b>
<b>Total Exposure</b>	<b>4,586</b>	<b>53,153,067</b>	<b>53,157,653</b>	<b>6,087,595</b>	<b>1,319,073</b>	<b>931</b>	<b>3,238,392</b>	<b>28,632</b>

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

31st December 2018 In TLKR	Bills of Exchange	Overdrafts	Export Finance	Trade Finance	Supplier finance	Other	Total
Agriculture & Fishing	-	14,410	-	-	-	-	14,410
Manufacturing	-	2,194,564	-	2,258,138	907,181	-	5,359,883
Tourism	-	656,100	-	-	-	-	656,100
Transport	-	198,362	-	-	-	-	198,362
Construction	-	-	-	-	-	121,656	121,656
Trading	-	3,695,336	-	331,372	-	-	4,026,708
Telecommunications	-	1,018	-	-	-	-	1,018
Financial & Business Services	-	1,521,819	-	-	-	-	1,521,819
Other	-	-	-	-	-	82,274	82,274
<b>Total</b>	<b>-</b>	<b>8,281,608</b>	<b>-</b>	<b>2,589,510</b>	<b>907,181</b>	<b>203,930</b>	<b>11,982,229</b>
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
<b>Total</b>	<b>-</b>	<b>6,747,952</b>	<b>828,418</b>	<b>779,199</b>	<b>1,048,497</b>	<b>175,630</b>	<b>9,579,696</b>

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

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

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

**(As per SLFRS9 – adopted for Published Accounts and Audited Financial Statements)**

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

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

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

**Staged Approach to the Determination of Expected Credit Losses**

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

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

**Significant Increase in Credit Risk**

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

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

### Credit-impaired Financial Assets in Stage 3

The Group has aligned its definition of credit-impaired under IFRS 9 to when a Financial Asset has defaulted for regulatory purposes, according to the Capital Requirements Regulation under Art. 178.

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

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

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

Forecasts of future economic conditions when calculating ECLs are considered. The lifetime expected losses are estimated based on the probability-weighted present value of the difference between the contractual cash flows that are due to the Group under the contract; and the cash flows that the Group expects to receive.

A Financial Asset can be classified as credit-impaired in Stage 3 but without an allowance for credit losses (i.e., no impairment loss is expected). This may be due to the value of collateral. The Group's engine based ECL calculation is conducted on a monthly basis, whereas the case-by-case assessment of ECL in Stage 3 for non-homogeneous portfolio has to be performed at least on a quarterly basis.

### Purchased or Originated Credit-Impaired Financial Assets in Stage 3

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

### Write-Offs

The Group reduces the gross carrying amount of a Financial Asset when there is no reasonable expectation of recovery. Write-offs can relate to a Financial Asset in its entirety, or to a portion of it, and constitute a derecognition event. The Group considers all relevant information in making this determination, including but not limited to:

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

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

### Collateral for Financial Assets Considered in the Impairment Analysis

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

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

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

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

For those non-homogeneous loans in Stage 3 the determination of the impairment allowance often requires the use of considerable judgment concerning such matters as local economic conditions, the financial performance of the counterparty and the value of any collateral held, for which there may not be a readily accessible market.

The determination of the expected credit losses in Stages 1 and 2 and for homogeneous loans in Stage 3 is calculated using statistical expected loss models. The model incorporates numerous estimates and judgments. The Group performs a regular review of the model and underlying data and assumptions. The probability of defaults, loss recovery rates and judgments concerning ability of borrowers in foreign countries to transfer the foreign currency necessary to comply with debt repayments, amongst other things, are incorporated into this review.

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

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

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

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

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

### **(b) General Provision**

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

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



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

In TLKR					
31st December 2018	Gross exposure	Collateral	Net exposure	Description of collateral	Description of Credit Quality
Balances with Central Bank of Sri Lanka	2,607,527		2,607,527	n/a	Sovereign Risk
Balances with Banks & Financial Institutions	16,211		16,211	n/a	66% of exposure with AAA to A- rated counterparts and 34% of exposure with BBB+ to BBB- rated counterparts
Placements with Banks	3,200,611		3,200,611		100% of exposure with AAA to BBB- locally rated counterparts.
Group balances receivable	6,041,558		6,041,558		Credit risk exposure of Group Receivables
Investment in Government Securities	15,238,140		15,238,140	n/a	Sovereign Risk
Other investments	1,600		1,600	n/a	Regulatory mandated investments in Lanka Clear & CRIB, subject to credit risk
Loans and Advances	11,982,229		11,982,229	Refer Note *	0.2% of exposure with AAA to AA- locally rated counterparts. The others are classified as unrated as no local ratings have been issued.
<b>Total on-balance sheet items</b>	<b>33,147,876</b>	<b>-</b>	<b>33,147,876</b>		
Letters of credit	1,054,286		1,054,286		Total credit equivalent of off b/s exposures is LKR 5.8 bio, of which 53% of the exposure is with AAA to BBB- counterparts. All performing as at period end.
Guarantees	8,342,355		8,342,355	Refer Note *	
Acceptances	776,842		776,842		
Derivatives (net)	1,126		1,126		
Usance Import bills	832,210		832,210		
Undrawn credit lines	11,656,433		11,656,433		
Other	-		-		
<b>Total off-balance sheet items</b>	<b>22,663,852</b>	<b>-</b>	<b>22,663,852</b>		
In TLKR					
31st December 2017	Gross exposure	Collateral	Net exposure	Description of collateral	Description of Credit Quality
Balances with Central Bank of Sri Lanka	643,921		643,921	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	16,381,564		16,381,564	n/a	Sovereign Risk
Other investments	1,600		1,600	n/a	Regulatory mandated investments in Lanka Clear & CRIB, subject to credit risk
Loans and Advances	3,573,636		3,573,636	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.
<b>Total on-balance sheet items</b>	<b>32,313,716</b>	<b>-</b>	<b>32,313,716</b>		
Letters of credit	3,082,335		3,082,335		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.
Guarantees	7,830,306		7,830,306	Refer Note *	
Acceptances	708,022		708,022		
Derivatives (net)	(234)		(234)		
Usance Import bills	1,355,304		1,355,304		
Undrawn credit lines	17,836,826		17,836,826		
Other	46,001		46,001		
<b>Total off-balance sheet items</b>	<b>30,318,560</b>	<b>-</b>	<b>30,318,560</b>		

**Note \***

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

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

Please refer combined table under c).

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

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 2018

No.	Assets and OBS	Upto 1month	1-3 Months	3-6 Months	6-12 Months	1-2 Years	2-3 Years	3-4 Years	4-5 Years	5-7 Years	7-10 years	10-15 Years	15-20 Years	Over 20 Years	Non Sensitive	Total
1	Cash on Hand	-	-	-	-	-	-	-	-	-	-	-	-	-	33	33
2	Deposits with CBSL	-	-	-	-	-	-	-	-	-	-	-	-	-	2,608	2,608
3	Balances due from HO/Affiliates/Branch	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4	Balances due from Other Banks	3,200	-	-	-	-	-	-	-	-	-	-	-	-	-	3,200
5	Investments	1,800	2,704	2,173	1,114	-	-	-	-	-	-	-	-	-	2	7,792
6	Bills of Exchange and Promissory Notes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7	Overdrafts	498	498	498	997	1,384	-	1,384	-	1,384	-	-	-	-	-	6,643
8	Loans and Advances	695	543	9	16	33	31	20	16	25	25	19	-	-	-	1,433
9	Non Performing Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	Fixed Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	50	50
11	Net Inter-branch Transactions	-	-	-	-	-	-	-	-	-	-	-	-	-	92	92
12	Accrued Interest	-	-	-	-	-	-	-	-	-	-	-	-	-	90	90
13	Other Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	1,876	1,876
14	Reverse Repos	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15	FRAs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
16	Swaps	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
17	Futures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18	Options	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
19	FX FWD Contracts- BUY	-	-	-	43	-	-	-	-	-	-	-	-	-	-	43
	<b>Total</b>	<b>6,193</b>	<b>3,745</b>	<b>2,681</b>	<b>2,169</b>	<b>1,417</b>	<b>31</b>	<b>1,404</b>	<b>16</b>	<b>1,409</b>	<b>25</b>	<b>19</b>	<b>-</b>	<b>-</b>	<b>4,750</b>	<b>23,859</b>
	<b>Liabilities and OBS</b>															
1	Demand Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	5,077	5,077
2	Savings Deposits	116	116	116	232	290	290	290	290	580	-	-	-	-	-	2,322
3	Time Deposits	2,847	1,820	-	-	-	-	-	2	-	-	-	-	-	-	4,670
4	Other Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5	Balances due to HO/Affiliates/Branches	-	-	-	-	-	-	-	-	-	-	-	-	-	38	38
6	Balance due to other Banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7	Certificate of Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8	Other Borrowings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	Net Inter-branch Transactions	-	-	-	-	-	-	-	-	-	-	-	-	-	2,143	2,143
10	Bills Payable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	Interest Payable	-	-	-	-	-	-	-	-	-	-	-	-	-	9	9
12	Provisions (Others)	-	-	-	-	-	-	-	-	-	-	-	-	-	1,178	1,178
13	Capital	-	-	-	-	-	-	-	-	-	-	-	-	-	3,608	3,608
14	Reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	4,151	4,151
15	Retained Earnings - Current year Profits	-	-	-	601	-	-	-	-	-	-	-	-	-	-	601
16	Subordinate Debts	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
17	Other (Specify)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18	Repos	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
19	FRAs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20	Futures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
21	Swaps	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
22	Options	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	<b>Total</b>	<b>2,963</b>	<b>1,936</b>	<b>116</b>	<b>833</b>	<b>290</b>	<b>290</b>	<b>290</b>	<b>292</b>	<b>580</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>16,203</b>	<b>23,795</b>
	<b>Gap</b>	<b>3,230</b>	<b>1,809</b>	<b>2,564</b>	<b>1,336</b>	<b>1,127</b>	<b>(259)</b>	<b>1,114</b>	<b>(277)</b>	<b>829</b>	<b>25</b>	<b>19</b>	<b>-</b>	<b>-</b>	<b>(11,453)</b>	<b>64</b>
	<b>Lines of credit committed to institutions and other borrowers</b>															
	Unutilised portion of overdraft, loans and advances	69	-	-	-	-	-	-	-	-	-	-	-	-	-	69
	Letters of rediscounted/Swaps/Forward contracts (LKR against Other currencies)	621	1,449	216	358	370	84	-	-	-	-	-	-	-	-	3,097
		138	-	-	64	-	-	-	-	-	-	-	-	-	-	202

**Sensitivity of Assets and Liabilities**

(Currency - USD mio)

As at 31 Dec 2018

No.	Assets and OBS	Upto 1month	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 HOI/Affiliates/Branches	-	-	-	-	-	-	-	-	-	-	-	-	-	26.0	26.0
4	Balances due from Other Banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5	Investments	-	20.0	-	-	19.8	-	-	-	-	-	-	-	-	-	39.8
6	Bills of Exchange and Promissory Notes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7	Overdrafts	0.5	0.5	0.5	1.1	1.5	-	1.5	-	1.5	-	-	-	-	-	7.2
8	Loans and Advances	12.3	-	-	-	-	-	-	-	-	-	-	-	-	-	12.3
9	Non Performing Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	Fixed Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	Net Inter-branch Transactions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12	Accrued Interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13	Other Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	0.9	0.9
14	Reverse Repos	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15	FRAs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
16	Swaps	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
17	Futures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18	Options	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
19	FX FWD Contracts- BUY	0.9	-	-	0.4	-	-	-	-	-	-	-	-	-	-	1.3
	<b>Total</b>	<b>13.8</b>	<b>20.5</b>	<b>0.5</b>	<b>1.5</b>	<b>21.3</b>	<b>-</b>	<b>1.5</b>	<b>-</b>	<b>1.5</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>26.9</b>	<b>87.5</b>
	<b>Liabilities and OBS</b>															
1	Demand Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	15.0	15.0
2	Savings Deposits	0.0	0.0	0.0	0.1	0.2	0.2	-	0.2	-	-	-	-	-	-	0.7
3	Time Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4	Other Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5	Balances due to HOI/Affiliates/Branches	18.10	20.0	-	-	20.0	-	-	-	-	-	-	-	-	-	58.10
6	Balance due to other Banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7	Certificate of Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8	Other Borrowings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	Net Inter-branch Transactions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	Bills Payable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	Interest Payable	-	-	-	-	-	-	-	-	-	-	-	-	-	0.5	0.5
12	Provisions - income tax	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13	Capital	-	-	-	-	-	-	-	-	-	-	-	-	-	7.2	7.2
14	Reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	1.9	1.9
15	Retained Earnings	-	-	-	3.2	-	-	-	-	-	-	-	-	-	-	3.2
16	Subordinate Debts	-	-	-	-	-	-	-	-	-	-	-	-	-	1.7	1.7
17	Other (FCBU(USD) GLLP/PV)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18	Repos	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
19	FRAs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20	Futures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
21	Swaps	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	<b>Total</b>	<b>18.1</b>	<b>20.0</b>	<b>0.0</b>	<b>3.3</b>	<b>20.2</b>	<b>0.2</b>	<b>-</b>	<b>0.2</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>26.3</b>	<b>88.3</b>
	<b>Gap</b>	<b>(4.4)</b>	<b>0.5</b>	<b>0.5</b>	<b>(1.8)</b>	<b>1.1</b>	<b>(0.2)</b>	<b>1.5</b>	<b>(0.2)</b>	<b>1.5</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.6</b>	<b>(0.8)</b>
		Upto 1month	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	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Utilized portion of overdraft, loans and advances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Letters of credit/quotations/acceptances	5.4	8.5	8.3	3.2	2.7	1.4	-	0.7	5.5	-	-	-	-	-	35.7
	Repo/Bills rediscounted/Swaps/Forward contracts (USD against Other currencies)	-	-	-	0.3	-	-	-	-	-	-	-	-	-	-	0.3

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

N/A

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

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

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

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

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

Maturities of Assets and Liabilities (MAL)									
(Currency - LKR mio)									
As at 31 Dec 2018									
No.	Heads of Accounts Item	Upto 1 month	1 - 3 Months	3 - 6 Months	6 - 9 Months	9 - 12 Months	1 - 3 Years	3 - 5 Years	Over 5 Years
<b>A Inflows</b>									
1	Cash on Hand	33	-	-	-	-	-	-	-
2	Deposits with CBSL	893	626	186	132	132	123	123	392
3	Balances due from Head Office, Affiliates and Own branches	-	-	-	-	-	-	-	-
4	Balances due from Other Banks	3,200	-	-	-	-	-	-	-
5	Investments (Net of provisions)	1,800	2,704	2,173	751	363	-	-	2
6	Bills of Exchange	-	-	-	-	-	-	-	-
7	Overdraft	498	498	498	498	498	1,384	1,384	1,384
8	Loans and Advances	695	543	9	8	8	33	51	85
9	NPLs	-	-	-	-	-	-	-	-
10	Net Inter-Branch Transactions	-	-	-	-	-	-	-	-
11	Other Assets	1,805	7	-	-	-	-	-	65
12	Lines of credit committed from institutions	-	-	-	-	-	-	-	-
13	Reverse Repo	-	-	-	-	-	-	-	-
14	Accrued Interest	90	-	-	-	-	-	-	-
15	Fixed Assets	-	-	-	-	-	-	-	50
16	Interbranch receivables	92	-	-	-	-	-	-	-
17	FX FWD Contracts- BUY	-	-	-	43	-	-	-	-
<b>Total (a)</b>		<b>9,106</b>	<b>4,377</b>	<b>2,867</b>	<b>1,433</b>	<b>1,001</b>	<b>1,540</b>	<b>1,558</b>	<b>1,978</b>
<b>B Outflows</b>									
1	Demand Deposits	1,015	1,015	761	508	508	-	-	1,269
2	Savings Deposits	116	116	116	116	116	580	580	580
3	Balances due to Head Office/Affiliates/Own Branches	38	-	-	-	-	-	-	-
4	Balances due from Other Banks	-	-	-	-	-	-	-	-
5	Time and Other Deposits	2,847	1,820	-	-	-	-	-	2
6	Certificates of Deposits, Borrowings & Bonds	-	-	-	-	-	-	-	-
7	Net Inter-branch Transactions	255	-	-	-	-	1,888	-	-
8	Bills Payable	-	-	-	-	-	-	-	-
9	Interest Payable	9	-	-	-	-	-	-	-
10	Provisions other than for loan losses and depreciation in the value of investment portfolio	-	-	-	-	-	-	-	-
11	Other Liabilities	50	191	93	0	1	568	-	275
12	Lines of credit committed to institutions	-	-	-	-	-	-	-	-
13	Unutilized portion of Overdraft, Loans and Advances	10	9	4	4	4	12	12	12
14	Letters of Credit/ Guarantees/Acceptances	621	1,449	216	358	-	453	-	-
15	Repo/Bills Rediscounted/Swaps/Forward contracts	138	-	-	64	-	-	-	-
16	Capital & Reserves	-	-	-	-	-	-	-	7,759
17	Retained Earnings + Current year profits	-	-	-	-	601	-	-	-
<b>Total (b)</b>		<b>5,099</b>	<b>4,600</b>	<b>1,191</b>	<b>1,050</b>	<b>1,230</b>	<b>3,502</b>	<b>593</b>	<b>9,898</b>
<b>Gap = (a) - (b)</b>		<b>4,006</b>	<b>(223)</b>	<b>1,676</b>	<b>382</b>	<b>(229)</b>	<b>(1,962)</b>	<b>965</b>	<b>(7,921)</b>
<b>Cumulative Gap</b>		<b>4,006</b>	<b>3,784</b>	<b>5,460</b>	<b>5,842</b>	<b>5,613</b>	<b>3,651</b>	<b>4,617</b>	<b>(3,304)</b>
<b>Cumulative Liabilities</b>		<b>5,099</b>	<b>9,700</b>	<b>10,890</b>	<b>11,941</b>	<b>13,171</b>	<b>16,672</b>	<b>17,265</b>	<b>27,163</b>
<b>Cumulative Gap as a % of Cumulative Liabilities</b>		<b>79%</b>	<b>39%</b>	<b>50%</b>	<b>49%</b>	<b>43%</b>	<b>22%</b>	<b>27%</b>	<b>-12%</b>

### Maturities of Assets and Liabilities (MAL)

(Currency - USD mio)

As at 31 Dec 2018

No.	Heads of Accounts Item	Upto 1 month	1 - 3 Months	3 - 6 Months	6 - 9 Months	9 - 12 Months	1 - 3 Years	3 - 5 Years	Over 5 Years
<b>A Inflows</b>									
1	Cash on Hand	0.0	-	-	-	-	-	-	-
2	Deposits with CBSL	-	-	-	-	-	-	-	-
3	Balances due from Head Office, Affiliates and Own branches	26.0	-	-	-	-	-	-	-
4	Balances due from Other Banks	-	-	-	-	-	-	-	-
5	Investments (Net of provisions)	-	20.0	-	-	-	19.8	-	-
6	Bills of Exchange	-	-	-	-	-	-	-	-
7	Overdraft	0.5	0.5	0.5	0.5	0.5	1.5	1.5	1.5
8	Loans and Advances	12.3	-	-	-	-	-	-	-
9	NPLs	-	-	-	-	-	-	-	-
10	Net Inter-Branch Transactions	-	-	-	-	-	-	-	-
11	Other Assets	0.5	0.3	-	-	-	-	-	-
12	Lines of credit committed from institutions	-	-	-	-	-	-	-	-
13	Other	-	-	-	-	-	-	-	-
14	FX FWD Contracts- BUY	0.9	-	-	0.4	-	-	-	-
<b>Total (a)</b>		<b>40.3</b>	<b>20.8</b>	<b>0.5</b>	<b>0.9</b>	<b>0.5</b>	<b>21.3</b>	<b>1.5</b>	<b>1.5</b>
<b>B Outflows</b>									
1	Demand Deposits	3.0	3.0	2.2	1.5	1.5	-	-	3.7
2	Savings Deposits	0	0	0	0	0	0	0	0
3	Balances due to Head Office/Affiliates/Own Branches	18.1	20.0	-	-	-	20.0	-	-
4	Balances due from Other Banks	-	-	-	-	-	-	-	-
5	Time Deposits	-	-	-	-	-	-	-	-
6	Certificates of Deposits, Borrowings & Bonds	-	-	-	-	-	-	-	-
7	Net Inter-branch Transactions	-	-	-	-	-	-	-	-
8	Bills Payable	-	-	-	-	-	-	-	-
9	Interest Payable	0.5	-	-	-	-	-	-	-
10	Provisions other than for loan losses and depreciation in the value of investment portfolio	-	-	-	-	-	-	-	-
11	Other Liabilities	1.7	-	-	-	-	-	-	-
12	Lines of credit committed to institutions	-	-	-	-	-	-	-	-
13	Unutilized portion of Overdraft, Loans and Advances	-	-	-	-	-	-	-	-
14	Letters of Credit/ Guarantees/Acceptances	5.4	8.5	8.3	3.2	-	4.1	-	6.3
15	Repo/Bills Rediscounted/Swaps/Forward contracts	-	-	-	0.3	-	-	-	-
16	Capital & Reserves	-	-	-	-	-	-	-	9.1
17	Retained Earnings +current year profits	-	-	-	-	3.2	-	-	-
<b>Total (b)</b>		<b>28.7</b>	<b>31.5</b>	<b>10.5</b>	<b>5.0</b>	<b>4.8</b>	<b>24.3</b>	<b>0.2</b>	<b>19.3</b>
<b>Gap = (a) - (b)</b>		<b>11.6</b>	<b>(10.7)</b>	<b>(10.0)</b>	<b>(4.1)</b>	<b>(4.2)</b>	<b>(3.0)</b>	<b>1.3</b>	<b>(17.8)</b>
<b>Cumulative Gap</b>		<b>11.6</b>	<b>0.9</b>	<b>(9.1)</b>	<b>(13.1)</b>	<b>(17.4)</b>	<b>(20.3)</b>	<b>(19.0)</b>	<b>(36.8)</b>
<b>Cumulative Liabilities</b>		<b>28.7</b>	<b>60.3</b>	<b>70.8</b>	<b>75.8</b>	<b>80.5</b>	<b>104.8</b>	<b>105.0</b>	<b>124.3</b>
<b>Cumulative Gap as a % of Cumulative Liabilities</b>		<b>40%</b>	<b>2%</b>	<b>-13%</b>	<b>-17%</b>	<b>-22%</b>	<b>-19%</b>	<b>-18%</b>	<b>-30%</b>

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 LRM on an annual basis or more frequently if required. DB Colombo ALCO acknowledges the stress testing results, which is performed on a daily basis and this assesses the short term liquidity risk tolerance. This is reported to the ALCO at its regular meetings. The Funding Matrix addresses the long-term liquidity risk of the DB Colombo. Funding Matrices for all major currencies shall be prepared on at least monthly basis and reported to the ALCO.

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

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

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

### Monitoring of Liquidity Risk Limits and Concentrations

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

- **The Liquidity Coverage Ratio (LCR):** The Liquidity Coverage Ratio is a pre-defined regulatory stress metric. CBSL's Bank Supervision Department implemented Basel III liquidity standards on liquidity coverage ratio for licensed commercial banks and licensed specialized banks effective from 1 April 2015. Banks shall comply with the minimum requirement of 60%, and the minimum requirement will be enhanced annually by 10% from 01 January 2016 to reach 100% by 1 January 2019 for all currency and LKR. Also CBSL expects banks to closely monitor LCR by significant currency. LCR is reported to ALCO by local Finance on an on-going and monthly basis for regular monitoring. LCR is also reported to ALCO via weekly Liquidity Dashboard (LDB) to regular monitoring and compliance. Detailed trend analyses and LCR forecasts based on projected cash flows are discussed on at least quarterly basis at ALCO by Treasury, to ensure 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. Intra-group funding is governed by the Credit Risk Management ("CRM") cross border funding limit process and daily Intra-group utilization report is distributed by LTRA to Treasury, LRM, and CRM via email for monitoring purpose.
- **Local liquidity stress testing:** local stress testing for liquidity risk is performed on a daily basis and assesses the short term liquidity risk tolerance of DB Colombo. The stress testing gives the analysis of the DB Colombo's ability to withstand predefined stress events.
- **Liability Diversification Target:** External liabilities are raised through Deutsche Bank AG, Colombo Branch. The ALCO approves the funding plan on an annual basis. Large fund (Top 10 depositors) providers: max. 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.
- **Net Stable Funding Ratio (NSFR):** Furthermore Central Bank of Sri Lanka issuing Banking Act Direction 08 of 2018 on 21 Nov 2018, implemented Net Stable Funding Ratio (NSFR) under Basel III liquidity standards for licensed commercial banks (LCBs) and licensed specialized banks (LSBs) effective 01 January 2019. Banks are expected to comply with the minimum regulatory requirement of 90% effective 01 Jan 2019 and the minimum will be increased to 100% effective 01 July 2019. For monitoring purposes, NSFR results will be reported by local Finance to ALCO and same will be reported via regular Liquidity Dashboard reports and ALCO meeting materials from 2019 onwards to ensure ongoing compliance.

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

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

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

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

## iv) Operational Risk

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

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

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

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

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

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

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

Deutsche Bank carries out due diligence tests on the third party service providers globally/ regionally for the activities handled at the Regional Smart Sourcing Centers located in major Hubs.

With regard to locally outsourced activities, necessary due diligence tests are carried out on an annual basis covering corporate records, shareholder information, business contracts, legal and financial data, management/ staff review, litigation, audit, filing, insurance, business continuity etc.

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

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