Deutsche Bank AG, Colombo Branch

Risk Disclosure

as at June 30, 2017

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Contents

INTRODUCTION

The purpose of this Report is to document DB Colombo Branch's approach to the Internal Capital Adequacy Assessment Process (ICAAP) as required by Banking Act Direction No 5 of 2013 – Regulatory framework on Supervisory Review Process (Pillar 2 of Basel II) issued by the Central Bank of Sri Lanka on 31st July 2013. Specifically, it describes and articulates the risk management and governance framework, methodologies, processes and infrastructure required to ensure capital adequacy with due attention to all material risks for DB Colombo, while also ensuring compliance with relevant regulatory requirements of Banking Act Direction No. 7 of 2011 – Integrated Risk Management Framework for Licensed Banks issued by the Monetary Board in terms of Sections 46(1) and 76(J) (I) of the Banking Act, No. 30 of 1988, as amended, on 5th October 2011; Amendment - Baseline Security Standard for Information Security Management issued in June 2014 and Guideline on Stress Testing issued in September 2014.

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

DB Group offers a wide variety of investment, financial and related products and services to private individuals, corporate entities and institutional clients around the world and organised under three divisions as of 30th June 2017: Corporate and Investment Banking (CIB), Private & Commercial Bank (PCB) and Asset Management (AM). CIB combines Deutsche bank's Corporate Finance, Equities, Fixed Income & Currencies and Global Transaction Banking Businesses with the latter providing cash management, trade finance and securities services, delivering the full range of commercial banking products and services for both corporates and institutions worldwide. PCB corporate division combines the bank's expertise in private and commercial banking with Postbank in Germany and Wealth Management in one corporate division. AM offers individuals and institutions traditional and alternative investments across all major asset classes.

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

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

DB Colombo Branch aims to fully integrate into the DB Group operations, policies and procedures as part of its core risk management framework as further elaborated in the next sections.

RISK MANAGEMENT FRAMEWORK AND GOVERNANCE

Risk Management Framework

The risk management at DB Colombo Branch is integral to DB Group's risk management framework and processes.

DB Colombo Branch's business model requires to identify, assess, measure, aggregate and manage risks, and to allocate capital among our businesses. Risk and capital are managed via a framework of principles, organizational structures and measurement and monitoring processes that are closely aligned with the activities and organizational structure of DB Colombo Branch.

- Core risk management responsibilities are embedded in the local Executive Committee and delegated to senior business and infrastructure heads for execution and oversight. The Executive Committee regularly monitors the risk and capital profile.
- We operate a Three lines of Defense (“3LoD”) risk management model. The 1st Line of Defense (“1st LoD”) are all the business divisions and service providing infrastructure areas (within Chief Operating Office) who are the "owners" of the risks. The 2nd Line of Defense (“2nd LoD”) are all the independent risk and control infrastructure functions. The 3rd Line of Defense (“3rd LoD”) is Group Audit, which assures the effectiveness of our controls. All 3LoD are independent of one another and accountable for maintaining structures that ensure adherence to the designed principles at all levels.
- Risk strategy is approved by the Executive Committee on an annual basis and is defined based on the Risk Appetite and Strategic and Capital Plan in order to align risk, capital and performance targets.
- Cross-risk analysis reviews are conducted to validate that sound risk management practices and a holistic awareness of risk exist.
- All material risk types, including credit risk, market risk, operational risk, liquidity risk, business risk and reputational risk, are centrally managed via risk management processes. Modeling and measurement approaches for quantifying risk and capital demand are implemented across material risk types. Reputational risk is implicitly covered in DB Group’s economic capital framework, primarily within operational and strategic risk.
- Monitoring, stress testing tools and escalation processes are in place for key capital and liquidity thresholds and metrics.
- Systems, processes and policies are critical components of our risk management capability. DB Colombo has a sound & efficient risk infrastructure in place
- Recovery plan is managed via a centralized process. DB Group Recovery planning provides the escalation path for crisis management governance and supplies senior management with a list of actions designed to improve the capital and liquidity positions in a stress event.
- At the Group level, resolution planning is the responsibility of the resolution authority, the Single Resolution Board (“SRB”). The SRB provides a strategy to manage Deutsche Bank in case of default. The strategy is designed to prevent major disruptions to the financial system or the wider economy through maintaining critical services.

Risk Governance

- DB Colombo Branch’s operations are regulated and supervised by the Central Bank of Sri Lanka. Such regulation focuses on licensing, capital adequacy, liquidity, risk concentration, conduct of business as well as organizational and reporting requirements. The European Central Bank in connection with the competent authorities of EU members which joined the Single Supervisory Mechanism via the Joint Supervisory Team act in cooperation as DB Group primary supervisors to monitor the Group’s compliance with the German Banking Act and other applicable laws and regulations as well as the CRR/CRD 4 framework and respective implementations into German law.
- Several layers of management provide cohesive risk governance:
- The local Executive Committee is aware and kept regularly informed on special developments in our risk situation, risk management and risk controlling, as well as on our reputation and material litigation cases.
- The local Executive Committee is responsible for managing DB Colombo Branch in accordance with its Terms of Reference with the objective of creating sustainable value in the interest of the company, thus taking into consideration the interests of the shareholders, employees and other stakeholders.
- The local Executive Committee is responsible for establishing a proper business organization, encompassing an appropriate and effective risk management.

The following functional committees are central to the management of risk at DB Colombo Branch:

Committee Structure of DB Colombo

Executive Committee (ExCo)		Operations Committee (OpCo)		Asset & Liability Committee (ALCO)	
Chair	**Frequency**	**Chair**	**Frequency**	**Chair**	**Frequency**
CCO	Monthly	COO	Monthly	Country Treasurer	Monthly

ICAAP Forum	
Chair	**Frequency**
COO	Quarterly

DB Colombo Branch's Chief Operating Officer has entity-wide responsibility for the management of all credit, market and operational risks as well as for the comprehensive control of risk.

Risk Culture

The risk culture at DB Colombo Branch is fully integrated in DB Group's risk culture framework and processes. This is underpinned in the below principles and practices.

DB Group seeks to promote a strong risk culture throughout the organization. It aims to help reinforce the Bank's resilience by encouraging a holistic approach to the management of risk and return throughout the organization as well as the effective management of DB Group's risk, capital and reputational profile. DB Group actively takes risks in connection with its business and as such the following principles define the risk culture within DB Group:

- Risk is taken within a defined risk appetite;
- Every risk taken needs to be approved within the risk management framework;
- Risk taken needs to be adequately compensated; and
- Risk should be continuously monitored and managed.

Employees at all levels are responsible for the management and escalation of risks. All employees are expected to exhibit behaviors that support a strong risk culture. To promote this DB Group policies require that behavior assessment is incorporated into our performance assessment and compensation processes. DB Group communicated the following risk culture behaviors through various communication vehicles:

- Being fully responsible for our risks;
- Being rigorous, forward looking and comprehensive in the assessment of risk;
- Inviting, providing and respecting challenges;
- Trouble shooting collectively; and
- Placing Deutsche Bank and its reputation at the heart of all decisions.

These behaviours are reinforced through a comprehensive risk culture training programme, as well as targeted communications and awareness campaigns.

Risk Appetite Framework

Risk appetite expresses the level of risk that we are willing to assume within our risk capacity in order to achieve our business objectives, as defined by a set of minimum quantitative metrics and qualitative statements. Risk capacity is defined as the maximum level of risk we can assume before breaching regulatory capital requirements and liquidity needs and our obligations to stakeholders.

Risk appetite is an integral element in our business planning processes via our Business and Risk Strategy, to promote the appropriate alignment of risk, capital and performance targets, while at the same time considering risk capacity and appetite constraints from both financial and non-financial risks. Compliance of the plan with our risk appetite and capacity is also tested under stressed market conditions. Top-down risk appetite serves as the limit for risk-taking for the bottom-up planning from the business functions.

The Risk Appetite Statement (RAS) at DB Colombo Branch ensures that risk taking activities at DB Colombo Branch is consistent with DB Group's strategy, business and risk overviews, as well as the local regulatory environment. Key objectives of the RAS are to:

- Articulate DB Colombo Branch's risk appetite clearly via both quantitative metrics and qualitative statements;
- Detail an overall approach in communicating risk appetite across and within DB Colombo Branch;
- Set ultimate boundaries for DB Colombo Branch's risk/reward target setting;
- Ensure that DB Colombo Branch has sufficient financial resources to support daily business at any given point in time and to absorb stressed market events;
- Be able to anticipate emerging risks and be adaptive towards changing economic and regulatory developments;
- Provide the basis for ongoing monitoring of our risk profile through DB Colombo Branch's 'Risk and Capital Profile' report; and
- Define thresholds for each metrics at which escalation will be triggered.

DB Colombo Branch's Risk Appetite articulates the overall tone from the top in pursuing risk across DB Colombo Branch and supports DB Group's risk culture, in reinforcing the bank's holistic risk management practices. In conjunction to the qualitative statements, DB Colombo Branch desires to:

- Take risks 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.
- Maintain stable funding and strategic liquidity to ensure that business is conducted within the liquidity risk appetite.
- Avoid any undue concentrations within the portfolios considering multiple dimensions. e.g. counterparty, region/ country, industries, products/ asset classes and business lines.
- Promote balanced risk adjusted performance and be fully responsible for accepting well compensated risks within risk appetite.
- Ensure that any business activity is supported by appropriate processes and controls to minimize operational risk.
- Minimize negative reputational, environmental and social impacts of our business activities.

DB Colombo Branch assigns key risk appetite metrics that are sensitive to the material risks to which the bank is exposed to and which are able to function as key indicators of the bank's financial health in terms of liquidity and capital requirements. These key metrics are Common Equity Tier 1 (CET1) ratio, Total Capital Adequacy Ratio, Economic Capital Adequacy (ECA) ratio, Liquidity Coverage Ratio (LCR) and Stressed Net Liquidity Position (SNLP).

In order to determine risk appetite and capacity, thresholds are set on a forward looking basis and the escalation mechanism is defined for further action. The levels chosen reflect DB Colombo Branch's strategic focus and business plan as well as additional internal and external stakeholders. In the event that the desired risk appetite is breached under either normal or stress scenarios, an escalation is made to the local Executive Committee which has to review and decide if further escalations to the Group and/or mitigating actions are required to bring risk profile back to the desired risk appetite range

Amendments to the risk appetite framework at DB Colombo Branch are discussed at the local Asset and Liability Committee (ALCO) and approved by the local Executive Committee (ExCo).

RISK AND CAPITAL PLAN

Capital and Strategic Planning

Capital management represents a fundamental risk management process at DB Colombo Branch 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 Branch's operations and its overall financial profile. DB Colombo Branch focuses on long-term stability, positioning itself to build and invest in market-leading businesses, even in a highly stressed environment.

DB Colombo Branch'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 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 Branch's relative strengths and capabilities to serve the clients in a competitive environment.

The local Executive Committee defines the local Business and Risk Strategy (BRS), including the Risk Appetite, that are aligned to DB Colombo Branch 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 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 Branch'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 Branch to:

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

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

The Country Treasurer and Head of Finance oversees the communication and implementation of the capital and strategic planning within the entity ensuring that the risk profile remains within the scope of the risk strategy determined by the Management Board, which is monitored via the Risk and Capital Profile (RCP) report on a quarterly basis.

Capital plan of DB Colombo Branch is presented to the Group Investment Committee (GIC) for consideration. The GIC is mandated by the Group management board to review all capital requests (incl. profit retentions) for subsidiaries and branches. Any subsequent capital measure will be benchmarked against the GIC-presented capital plan, deviations will be flagged and reasons for deviations provided.

Internal Capital Adequacy Assessment Process

The Internal Capital Adequacy Assessment Process (ICAAP) requires banks to identify and assess all relevant risks, and to maintain sufficient capital to face these risks and apply appropriate risk-management techniques to maintain adequate capitalization on an ongoing and forward looking basis.

DB Colombo Branch complies with ICAAP as required under Banking Act Direction No 5 of 2013 – Regulatory framework on Supervisory Review Process (Pillar 2 of Basel II) issued by the Central Bank of Sri Lanka on 31st July 2013 through an enterprise risk management and governance framework, methodologies, processes and infrastructure.

DB Colombo Branch ICAAP framework is aligned to Group approach. DB Colombo Branch calculates and monitors its capital adequacy position against Basel Pillar 1 targets.

DB Colombo Branch recognises the importance of using the ICAAP as part of its decision-making processes. As such ICAAP is embedded into business as usual activities, for example:

- DB Colombo Branch's Economic Capital adequacy is monitored on a quarterly basis, and reported to the local Executive Committee in the Risk and Capital Profile ("RCP") report. Capital projections are reviewed and approved by the local Executive Committee on those occasions, if necessary. The RCP is also used by the local Executive Committee as a key tool to analyse, monitor and report DB Colombo Branch's risk and capital profile. It is also leveraged to oversee on a quarterly basis the development of key risk metrics compared to the established risk appetite thresholds and if necessary, escalate for management actions;

- The risk management function continually analyses and monitors the risk profile of the business to ensure adherence to the approved plan, and to thresholds set for risk appetite metrics;

- The Risk Management Framework provides documentation of the risk governance and management framework of DB Colombo Branch by main risk types as well as the overall risk management practices in place at DB Colombo Branch; and

- The Business and Risk Strategy provides forward-looking aspects of DB Colombo Branch's business and risk strategy, broken down by key business activities. This overview supports the decision making processes of the local Executive Committee over the course of the year.

Stress Testing

The DB Colombo Branch-related stress tests e.g. Legal Entity Specific Stress Tests ("LESST") are reported in the RCP report and regularly discussed at the local ICAAP committee which ensures that stress testing framework and scenarios used reflect all relevant material risks as well as local regulatory requirements and informs the local ExCo about the local stress testing framework and results. DB Colombo Branch subjects all risk types covered under its EC concept (Pillar 2 risks), as well as liquidity risk, to regular stress tests. At Group level, the Stress Testing Committee is responsible for aligning scenario definitions between DB Group and legal entities according to the Global Stress Testing Policy.

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.

DB Colombo applies the migration matrix (global downturn scenario and macroeconomic stress scenario) as provided by DB Group to stress test its credit risks RWA. The migration matrix is an output from the Group Credit Stress Test (GCST) which is the macroeconomic downturn 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.

Liquidity risk stress testing

DB Colombo Branch is fully integrated into the Group's liquidity risk management framework, and as such performs local liquidity stress tests on a daily basis. The local stress test framework is derived from DB's global stress testing framework, but can be adjusted to cover local market peculiarities. Local stress test results are computed based on the standards prescribed in the Group Liquidity Stress Testing Methodology. Stress assumptions, alongside the local risk parameters are re-calibrated on a periodic basis to cater for local market characteristics and product specifications. All stress methodologies and assumptions are deliberated and approved at the local ALCO prior to implementation. The stress parameters are regionally validated, back-tested and documented by Treasury, and Liquidity Risk Control & Treasury

Market Risk. Stress tests are discussed regularly in the local ALCO, and brought to the attention of the local Executive Committee.

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. 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

DB Colombo Branch is fully integrated into the Group's operational risk management framework, and as such performs operational risk stress tests on a regular basis. The operational risk stress test framework is derived from DB's global stress testing framework..

Group Operational Risk translates the Group operational risk stress impact into DB operational risk factors for EC and Regulatory Capital (RC) respectively. The stressed operational risk factors for EC and RC are calculated on a quarterly basis by translating the macro economic assumptions of the Global Downturn scenario into expert based 'workable' operational risk assumptions and applied on legal entity level.

RISK AND CAPITAL MANAGEMENT

Risk Inventory

DB Colombo Branch faces a variety of risks as a result of the business activities; these risks include credit risk, market risk, business risk, liquidity risk, operational risk, reputational risk as described in the following sections below.

DB Colombo Branch, documents all entity relevant identified risk on a sub-risk type level. Each sub-risk types of risk inventory roll up to a main risk type. Each risk type may include several associated "sub-risk types". Credit-, market-, operational-, strategic- and liquidity risks are pre-assessed to be material on Group level according to MaRisk and accordingly, classified as material whenever they are identified as entity relevant risk types.

The overall process (annual and ad hoc) is coordinated by the relevant risk departments. Through existing processes (incl. Non-Financial Risk Control Assessment and New Product Approval), the relevant risk departments function and identifies risks or changes to the risk profile and the materiality.

Risk identification process is performed by the relevant risk departments under the leadership of the CRO/ COO. Each risk management function starts the risk identification phase to build up the list of risks that the entity is exposed to.

On a quarterly basis, the identified risks are monitored and reported in the RCP report.

Credit Risk Management

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

The Bank understands the below dimensions as key drivers for credit risk:

- "Default Risk", the most significant element of credit risk, is the risk that counterparties fail to meet contractual obligations in relation to the claims described above;
- "Country Risk" arising from a country's propensity to economic and political disruption. It therefore relates to the likelihood that changes in the business environment will occur that reduce the viability of doing business in the country or region. Country Risk shall mean the risk that the Bank 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" being the 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 credit risk across this portfolio of counterparties.
- "Product Risk" captures product-specific credit risk of transactions that could arise with respect to specific borrowers or group of borrowers. It takes into account whether obligations have a similar risk characteristics and market place behaviours.

DB Colombo Branch manages credit risk on the basis of policies and guidelines set by Group Credit Risk Management (CRM), an independent risk management function organised in alignment with the divisions of the Bank.

DB Colombo Branch CRM is based on the following principles:

- Accept CR only with creditworthy clients based on proper client due diligence
- Manage concentration risk at counterparty, product, country and industry level. Actively mitigate concentration risk through collateralization, hedging and/or distribution
- Allocate CR appetite by considering sustainable risk/return

CRM is organised globally and carries out risk identification, assessment, management, monitoring and reporting of credit risks. The CRM department is independent from business. Accordingly, DB Colombo Branch adopts the credit policies of DB Group and the CRO together with risk groups is responsible for establishing local policies and procedures to ensure compliance with DB Group principles.

Credit Risk Measurement

To determine the risk weighted assets for regulatory capital requirement purposes, DB Colombo measures credit risk using the standardized approach in line with Basel II directives of the Central Bank of Sri Lanka. The standardized approach measures credit risk either pursuant to fixed risk weights, which are predefined by the regulator, or through the application of external ratings. In order to calculate the regulatory capital requirements under the standardized approach, we use eligible external ratings from local rating agencies.

For Pillar 2 capital, DB Colombo Branch adopts the credit risk economic capital concept from DB Group which measures the amount of capital needed to absorb very severe, unexpected losses arising from our exposures over the period of one year. Further information on the Group credit risk EC quantification can be found in the Group's annual pillar 3 report under section "Credit Risk Economic Capital Model"

Credit Risk Mitigation Techniques

In addition to determining counterparty credit quality and the risk appetite, DB LE also uses various credit risk mitigation techniques to optimize credit exposure and reduce potential credit losses. Credit risk 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 including hedging executed by our Credit Portfolio Strategies Group.
- Netting and collateral arrangements which reduce the credit exposure from derivatives and repo- and repo-style transactions.

Collateral Held as Security

DB Colombo Branch regularly agrees on collateral to be received from or to be provided to customers in contracts that are subject to credit risk. 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.

We 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 fulfill its primary obligations. Cash collateral, securities (equity, bonds), and 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 fulfill 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.

Our processes seek to ensure that the collateral we 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. We have collateral type specific haircuts in place which are regularly reviewed and approved. In this regard, we strive to avoid "wrong-way" risk characteristics 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.

Netting and Collateral Arrangements for Derivatives and Securities Financing Transactions

Netting is applicable to both exchange traded derivatives and over-the-counter ("OTC") derivative transactions. Netting is also applied to securities financing transactions as far as documentation, structure and nature of the risk mitigation allow netting with the underlying credit risk.

In order to reduce the credit risk resulting from OTC derivative transactions, where CCP clearing is not available, DB Colombo Branch regularly seeks the execution of standard master agreements (such as master agreements for derivatives published by the International Swaps and Derivatives Association, Inc. (ISDA) with our counterparts. A master agreement allows for the close-out netting of rights and obligations arising under derivative transactions that have been entered into under such a master agreement upon the counterparty's default, resulting in a single net claim owed by or to the counterparty. For parts of the derivatives business (i.e., foreign exchange transactions) we also enter into master agreements under which payment netting applies in respect to transactions covered by such master agreements, reducing our settlement risk. In our risk measurement and risk assessment processes we apply close-out netting only to the extent we have satisfied ourselves of the legal validity and enforceability of the master agreement in all relevant jurisdictions.

Also, we enter into credit support annexes ("CSA") to master agreements in order to further reduce our derivatives-related credit risk. These annexes generally provide risk mitigation through periodic, usually daily, and margining of the covered exposure. The CSAs also provide for the right to terminate the related derivative transactions upon the counterparty's failure to honor a margin call. As with netting, when we believe the annex is enforceable, we reflect this in our exposure measurement.

Certain CSAs to master agreements provide for rating dependent triggers, where additional collateral must be pledged if a party's rating is downgraded. We also enter into master agreements that provide for an additional termination event upon a party's rating downgrade. These downgrading provisions in CSAs and master agreements usually apply to both parties but may also apply to us only. We analyze and monitor our potential contingent payment obligations resulting from a rating downgrade in our stress testing approach for liquidity risk on an ongoing basis.

Concentrations within Credit Risk Mitigation

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

Market Risk Management

Market risks assumed by DB Colombo Branch are managed by the Market Risk Management (MRM) department as part of MRM's global risk management framework.

MRM distinguishes between three substantially different types of market risk; trading market risk, traded default risk, and nontrading market risk.

- Trading market risk arises primarily through the market-making activities. This involves taking positions in debt, equity, foreign exchange, other securities and commodities as well as in equivalent derivatives.
- Traded default risk arising from defaults and rating migrations relating to trading instruments.
- Nontrading market risk arises from market movements, primarily outside the activities of the trading units, in our banking book and from off-balance sheet items. This includes interest rate risk; credit spread risk, investment risk and foreign exchange risk as well as market risk arising from our pension schemes, guaranteed funds and equity compensation. Nontrading market risk also includes risk from the modeling of client deposits as well as savings and loan products.

Market Risk Measurement

To determine the risk weighted assets for regulatory capital requirement purposes, DB Colombo measures market risk using the market risk standardized approach (MRSA) in line with Basel II directives of the Central Bank of Sri Lanka.

For Pillar 2 capital, DB Colombo Branch adopts the market risk economic capital concept from DB Group which measures the amount of capital needed to absorb very severe, unexpected losses arising from our exposures over the period of one year. Further information on the Group market risk EC quantification can be found in the Group's annual pillar 3 report under section "Market Risk Economic Capital Model"

Market Risk Monitoring of Limits and Concentrations

As a key control function, MRM ensures that DB Group remains within the overall risk appetite set out by the Management Board by establishing limits and monitoring the levels of Market Risk (MR). MRM continuously monitors DB Group's market risk levels including when they are below the relevant risk limit through the use of the key Market Risk Management metrics. Limits may be, and in certain cases are required to be, set against any of these metrics.

DB Colombo Branch is integrated into Deutsche Bank Group's global limit system, which is defined, monitored and controlled by MRM.

Market risk measures are calculated on a daily basis by Market Risk Control (MRC) centrally and exposures monitored against the established limits, if applicable. Risk reports are sent daily to businesses as well as submitted to senior management on a daily/weekly basis.

Market risk concentrations refer to concentrations in asset classes, single name, issuer, equity delta/ currencies, and balance sheet items. Concentration risk arises when positions with similar characteristics increase to a significant size, such that adverse development of a limited number of risk factors could lead to a significant loss for the Bank.

MR Managers are responsible for identifying, monitoring and managing these risks considering absolute size, liquidity (time to exit position under normal and under distressed market conditions) and the level of concentrations in crowded trades. Concentration risks are managed through the use of limits in some cases. In all cases, there is constant dialogue with Front Office Senior Management.

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. 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.

Operational Risk Management

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

DB Colombo Branch manages operational risk based on a Group-wide consistent framework that enables DB Group to determine the OR profile in comparison to the risk appetite and systematically identify OR themes and to define appropriate risk mitigation measures and priorities.

Group Operational Risk Management (Group ORM) define the Group Operational Risk Management Framework (GORMF) that ensures that Operational Risks are appropriately identified, assessed, mitigated, monitored, reported and escalated at DB.

(i) the GORMF supports the day-to-day management of Operational Risks (OR), which is the primary responsibility of the Business Division and the service providing Infrastructure Functions (GTO and Corporate Services) and

(ii) Operational Risk Management (ORM) independently monitors, reviews and assesses material operational risks and oversees the consistent application of the GORMF across the Bank.

The GORMF defines the consistent management of risk across all operational risk types and is comprised of a numbers of processes:

- holistic and efficient risk mitigation/risk acceptance within the defined operational risk appetite;
- timely and complete OR identification/ loss capture though continuous collection of internal operational risk events and external loss information. Internal scenarios are also developed to complete the Bank’s Risk Profile;
- timely, accurate and complete assessment of risks and controls mainly through a comprehensive Group Level Risk and Control Assessment (R&CA), Lessons Learned and Read Across processes;
- effective risk and mitigation monitoring; and
- timely, accurate and effective risk reporting/escalation.

Compliance department complements the GORMF as the responsible second LoD risk type controller for compliance risk. Compliance risk is defined as the current or prospective risk to earnings and capital arising from violations or non-compliance with laws, rules, regulations, agreements, prescribed practices or ethical standards and can lead to fines, damages and/ or the voiding of contracts and can diminish an institution’s reputation. Compliance department manages compliance risk (supported by the Bank’s business divisions and infrastructure functions) through identification of the adherence to material rules and regulations where non-compliance could lead to endangerment of the Bank’s assets as well as acting to implement effective procedures for compliance and the setup of the corresponding controls. The Compliance department further provides advisory services on the above and performs monitoring activities in relation to the coverage of new or changed material rules and regulations and assesses the corresponding control environment. In DB Colombo, local compliance department reports to local Executive Committee.

DB Colombo Branch is covered within the existing GORMF. This GORMF governs issues such as reporting, recording and escalation of OR events and losses. At local level, the Country COO and OpCo are responsible for adequate monitoring and reporting to ORM.

Operational Risk Measurement

DB Colombo Branch calculates and measures the regulatory capital requirements for operational risk using the basic indicator approach in line with Basel II directives issued by the Central Bank of Sri Lanka.

For Pillar 2 capital, DB Colombo Branch adopts the OR economic capital concept from DB Group which is based on the Advanced Measurement Approach (AMA). As inputs into the AMA model, DB Group uses internal loss data as well as external loss data provided by the industry consortium ORX (Operational Riskdata eXchange Association). Further information on the Group operational risk EC quantification can be found in the Group's annual pillar 3 report under section "Operational Risk Economic Capital Model"

Operational Risk Monitoring of Limits and Concentrations

The GORMF provides a basis for the determination of the Group OR Profile in comparison to the Bank's Risk Appetite, to systematically identify OR themes and concentrations, and to define risk mitigating measures and priorities.

The Economic Capital (EC) and Expected Loss (EL) Plan defines the EC (including Qualitative Adjustment Key Risk Indicators and Self Assessments) and EL targets at divisional and Group level used in the annual budget and monthly review processes.

All operational risk incidents are captured in a DB global reporting tool. Businesses or – if necessary designated ORM staff is responsible for reporting the incidents. The tool provides a standard reporting functionality to inform local OpCo on OR developments, relevant losses and areas of risk.

A monthly ORM report is produced for Sri Lanka. Group-wide standardized content of the report includes at a minimum:

- Aggregated operational loss reporting, and outline of material events
- Specific insights on divisional relevant risks
- Capital development
- Overview of the management of Self-Identified Issues

Operational risk concentrations are identified as major single risks, or risk clusters, within DB with the potential of a material impact on the P&L of Deutsche Bank Group. These risks are considered within Top Risks Reporting.

Once operational risks are identified and assessed, a determination of the most appropriate action is made based on the Group's Operational Risk Management framework.

The GORMF supports these decisions, based on an evaluation of remediation costs and potential impacts, resulting in three possible mitigating strategies:

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

As part of DB Group's operational risk mitigation, insurance policies have been entered into with external providers. These policies cover a variety of risks including criminal acts by employees, professional liability, securities loss and directors' and officers' liability. The insurance covers DB Group and all majority owned subsidiaries.

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.

Details of investment in appropriate information technology, if any, and other risk mitigation techniques taken during the reporting period:

Deutsche Bank Colombo operates two sites in Sri Lanka, Primary site in order to carry out daily business activities and the Disaster Recovery Site.

Majority of applications and infrastructure components used by Colombo branch are hosted out of bank's regional data centers, mainly from Asia Pacific Computer Center (APCC) in Singapore. Only regulatory mandated applications and few Deutsche Bank applications required for the local operation are hosted in Colombo branch.

Furthermore, Deutsche Bank Colombo has well implemented appropriate standards and technologies to secure networks, perimeter layers, and data security.

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.

Details of contingency plans in place to handle failure situations.

Deutsche Bank has implemented a robust Business Continuity Plan to handle any possible failure scenarios and subject to frequent monitoring and testing for resilience.

Liquidity Risk Management

Liquidity risk is the risk arising from the bank's 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 Group's Liquidity Risk Management (LRM) function is to ensure that the Group can fulfil its payment obligations at all times and can manage liquidity and funding risks within its risk appetite. The framework considers relevant and significant drivers of liquidity risk, on-balance sheet as well as off-balance sheet

Our liquidity risk management framework has been an important factor in maintaining adequate liquidity and in managing funding profile during 2017.

Liquidity Risk Management Framework

Liquidity risk is managed through the Asset and Liability Committee ("ALCO"). Treasury is responsible for overall liquidity management of the Bank including proposing liquidity risk limits – in line with the tolerance/risk appetite applied by Liquidity Risk Controls - for approval by the local Asset & Liability Committee (ALCO). Day-to-day funding and cash management of the branch and other Bank subsidiaries is also undertaken by Pool, acting within the parameters set by ALCO Liquidity risk is monitored through the Integrated Risk Management Framework and the internal DB Colombo branch liquidity policy.

Ongoing liquidity management is discussed as a regular item at the DB AG Colombo ALCO meeting, which takes place on a monthly basis. At each ALCO meeting, the liquidity position, the limit utilisation, changes in exposure and liquidity policy compliance are presented to the committee. Other topics of discussion include changes to asset / liability profile if warranted by stress testing results, review and estimation of additional funding capabilities and other possible sources of liquidity.

In this context LRC (Liquidity Risk Control) is responsible for the regular validation of the liquidity risk models which are developed by Treasury to measure and manage the Bank's liquidity risk profile. The Liquidity Model Risk (LMR) Working Group chaired by LRC provides effective oversight on all aspects of liquidity model risk. It also will review the Bank's liquidity risk limits on a regular basis. Where necessary LRC will propose changes to global limits to the Management Board for approval via the Group Risk Committee (GRC) as described in the Liquidity Limits and Thresholds Policy. LRC has the right to implement policies and guidelines to execute the above described tasks.

Furthermore, LTRA (Liquidity and Treasury Reporting & Analysis) will provide timely and comprehensive internal liquidity risk reporting to senior management and key stakeholders to inform them on all relevant aspects of liquidity risk in the Bank.

DB Colombo branch's liquidity risk model is based on two main liquidity risk models. (1) Stress testing and scenario analysis; (2) Funding matrix;

Stress testing and scenario analysis are used to evaluate the impact of sudden stress events on our liquidity positions. The scenario types cover institution-specific events (e.g. severe rating downgrade), market related event, as well as a combination of both which links a systemic market shock with a multi notch rating downgrade. Stress test results show overall net liquidity position across 8 weeks.

Funding matrix addresses the long-term liquidity risk management issue of the branch. This identifies the excess or shortfall of assets over liabilities in each time bucket, facilitating effective management of open liquidity exposures to avoid undue funding imbalances in tenors above one year.

Liquidity Stress Testing and Scenario Analysis

Global liquidity stress testing and scenario analysis is one of the key tools for measuring liquidity risk and evaluating the Group's short-term liquidity position within the liquidity risk framework.

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 Control (LRC) in its capacity as an independent risk unit, and approved at the local ALCO. Stress tests results are discussed regularly in the local ALCO, where local executive committee (ExCo) members are also members of ALCO. Liquidity stress testing models (including all applicable assumptions) are reviewed at least annually to ensure that all stress parameters are sufficiently severe and remain relevant to DB Colombo. Any changes in liquidity stress testing models/ assumptions are subject to ALCO, APAC LRC (Liquidity Risk Control) team and Regional Treasurer approval prior to the implementation.

Funding Risk Management

Structural Funding
Deutsche Bank's primary tool for monitoring and managing funding risk is the Funding Matrix. The Funding Matrix addresses the long-term liquidity risk management issue of the Bank. As the matrix is used to avoid undue funding imbalances in tenors above one year, it is the main determinant of the Bank's annual funding plan. Funding Matrices for all currencies, LKR and USD shall be prepared on a monthly/quarterly basis and reported to the ALCO.

Liquidity Coverage Ratio

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 1 January 2016 to reach 100% by 1Jan 2019 for all currency and LKR. Also CBSL expects banks to closely monitor LCR by significant currency. DB Colombo monitors LCR on an on-going basis. Finance is responsible for reporting of LCR ratio and production of relevant MIS/flash and Treasury is responsible for compliance with minimum LCR requirements with escalation to local ALCO in case of internal and/or regulatory breach.

Funds Transfer Pricing

The funds transfer pricing framework applies to all businesses and regions and promotes pricing of (i) assets in accordance with their underlying liquidity risk, (ii) liabilities in accordance with their liquidity value and funding maturity and (iii) contingent liquidity exposures in accordance with the cost of providing for commensurate liquidity reserves to fund unexpected cash requirements.

Contingency Plan

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. This section includes a description of tactical countermeasures available in the first eight weeks of a stress event.

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. As such a situation is likely to impact the Bank as a whole, the Group Treasurer would be responsible for ensuring consistency in approach between the Group CFP and Group Liquidity Management Committee and regional and local processes, taking into account local regulatory and other considerations and restrictions.

In case of activation of any local contingency plan, the Treasurer will immediately advise the Regional Treasurer and APAC Head of Liquidity Management & Funds Transfer Pricing.

Contingency Event
Certain trigger indicators are followed internally and in the market by Treasury Pool during the course of normal business. These include but are not limited to:

External Measures

- Pricing
  - DB 5yr Senior CDS spread
  - Foreign bank's funding spread vs. SLIBOR
- Deutsche Bank Credit Rating
  - Moody's / S&P / Fitch short term and long term rating and rating watch

Internal Measures

- Liquidity Exposure vs. Limit
  - Cross-border borrowing – Usage of limit
  - Daily stress test – Minimum net liquidity position up to 8 weeks
  - FX derivatives
- Funding Diversification
  - Customer concentration – Top 10
- Regulatory Compliance

- Liquidity coverage ratio for all currencies, and LKR

Strategic Liquidity Outlook

- Stress test result - Minimum Net Liquidity Position
- Funding Matrix for all currencies and USD

In (or in anticipation of) a crisis situation, the ALCO shall have the decisive and ultimate authority regarding all liquidity-related matters. In addition to the regular ALCO meeting schedule, the ALCO can be convened at the discretion of the local Treasurer or under the local Liquidity Scorecard process as outlined in the liquidity policy.

One key responsibility of the ALCO in that regard is to find the best possible balance between the effectiveness of available countermeasures in terms of liquidity generation and the potential negative repercussions they might have in terms of profit and loss as well as associated reputational risk. In the eventual case that these areas identify potential liquidity stress situations, Treasury must without delay investigate the causes of the excess, assess the anticipated impact on the Bank and decide whether the situation requires immediate action and/or whether a special ALCO meeting should be convened.

Business (Strategic) Risk Management

Management of business (strategic) risk at DB Colombo Branch is fully integrated into the Group's strategic risk management framework.

Strategic risk is the risk of suffering operating income shortfall due to a decrease in revenues which cannot be compensated by cost reduction. It is a material risk type that may arise from our failure to execute our strategy, our failure to position the Bank strategically, or our ineffective response to material negative plan deviations caused by external or internal factors.

The management of strategic risk involves minimizing potential operating income shortfall that can have an adverse impact on capital.

Business (Strategic) Risk Measurement

DB Group measures economic capital for business risk, which includes strategic risk and tax risk. The economic capital for strategic risk is based on a model calculating an earnings distribution on DB Group level. Important input parameters of the EC model are planned revenues and costs from the Group strategic plan and monthly management review process. This ensures that the model includes strategic decisions or changes to the business environment in a timely manner as it uses a business unit structure and revenue drivers for each business unit. These forecasts determine the mean values of the revenue and cost distributions. Further information on the Group business risk EC quantification can be found in the Group's annual pillar 3 report under section "Business Risk Economic Capital Model"

Strategic Risk Monitoring of Limits and Concentrations

Strategic Risk is regularly monitored within the "Monitoring of Strategic & Capital Plan" processes performed mainly by local ExCo as well as by the Risk and Capital Profile report on a quarterly basis and the BRS on an annual basis. Detailed analyses on underlying Revenues & Cost deviations from plan are performed on a regular or ad hoc basis as requested by the key stakeholders.

At Group level, Strategic Risk is identified, managed, mitigated, monitored and communicated jointly by the business (as 1st Line of Defence) and the Strategic Risk Management (as 2nd Line of Defence).

Strategic Risk EC is limited via business targets approved by the strategic plan and is therefore aligned with the risk profile and appetite.

Strategic Risk in DB Colombo Branch is mitigated at divisional and business unit level by the following measures:

- Strengthening DB's earnings structure and P&L resilience
- Maintaining robust performance management
- Balancing the revenue mix and ensuring a flexible cost base

- Managing costs performance in line with plans and supported by efficiency projects or counter-measures to evolving cost challenges
- Managing overall earnings performance against both internal goals and externally committed targets as well as responding to unplanned changes in the business environment

Reputational Risk Management

Management of reputational risk at DB Colombo Branch is fully integrated into the Group's reputational risk management framework.

Within Group's risk management process, reputational risk is defined as the risk of possible damage to DB's brand and reputation, and the associated risk to earnings, capital or liquidity, arising from any association, action or inaction which could be perceived by stakeholders to be inappropriate, unethical or inconsistent with DB's values and beliefs.

DB's reputational risk is governed by the Reputational Risk Framework. The Framework was established to provide consistent standards for the identification, assessment and management of reputational risk issues. While every employee has a responsibility to protect DB's reputation, the primary responsibility for the identification, assessment, management, monitoring and, if necessary, referring or reporting, of reputational risk matters lies with DB's Business Divisions. Each employee is under an obligation, within the scope of his or her activities, to be alert to any potential causes of reputational risk and to address them according to the Framework.

If a potential reputational risk is identified, it is required to be referred for further consideration within the Business Division through their Unit Reputational Risk Assessment Process. In the event that a matter is deemed to carry a material reputational risk and/or meets one of the mandatory referral criteria, it must be referred through to one of the four Regional Reputational Risk Committees (RRRCs) for further review as the 2nd line of defence. The RRRCs are sub-committees of the Group Reputational Risk Committee (GRRC), which itself is a sub-committee of the Group Risk Committee (GRC), and are responsible for the oversight, governance and coordination of the management of reputational risk in their respective regions of Deutsche Bank on behalf of DB's Management Board. In exceptional circumstances, matters can also be referred by the RRRCs to the GRRC.

The modelling and quantitative measurement of reputational risk internal capital is implicitly covered in the economic capital framework primarily within operational and strategic risk.

Interest rate risk in the 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.. Treasury Pool manages the Interest risk for the Bank on a fiduciary basis and has Market Risk limits for same. GTB is allowed to access market to facilitate clients FX transactions. However, there may be small residual FX and interest rate risk due to cash-flow mismatches from FX coverage and from non-maturity deposits (i.e. current account deposits).

Information on concentrations of risk

CRM actively aim to prevent undue concentration and long tail-risks (large unexpected losses) by ensuring a diversified credit portfolio, effectively protecting the bank's capital in all market conditions. Client, industry, country and product-specific concentrations are actively assessed and managed against our risk appetite. In DB Colombo, concentration risk is managed through compliance of the Single Borrower Limit Direction issued by the Central Bank of Sri Lanka. Top 10 counterparties skewed towards public and corporate sectors with the Sovereign accounting for >50% of total limits. Largest country exposure is Sri Lanka (>70% of total limits). Other major country exposures include MNCs in India and Malaysia. Concentration risk partly mitigated considering exposures are mainly to the Sovereign, large MNCs/local corporates with acceptable credit profiles.

CAPITAL

Capital management

The DB Group's Treasury function manages the DB Group's capital at group level and locally in each region. The allocation of financial resources, in general, and capital, in particular, favours business portfolios with the highest positive impact on the DB Group's profitability and shareholder value.

Treasury implements the DB Group's capital strategy, which itself is developed by the DB Group Risk Committee and approved by the DB Group Management Board. The Group is committed to maintain its sound capitalization. Overall capital demand and supply are constantly monitored and adjusted, if necessary, to meet the need for capital from various perspectives. These include book equity based on IFRS accounting standards, regulatory capital and economic capital.

The allocation of capital, determination of the DB Group's funding plan and other resource issues are presented to and approved by the DB Group Risk Committee.

Capital structure:

Central Bank of Sri Lanka, Bank Supervision Circular dated 29th July 2010 requires Banks to maintain minimum Core Capital of LKR 3 bn at the end of the reporting period, with an enhancement to LKR 4 bn by 31 December 2013 and LKR 5 Bn by 31 December 2015.

DB Colombo Branch's Core Capital as at 30th June 2017 is LKR 12.5 bn, comprised as follows:

Core Capital Instruments at historical rates In LKR mio	30th June 2017	31st Dec 2016
Assigned capital	4,410	4,410
Statutory Reserves	596	596
Retained earnings	3,756	3,756
Special Reserve	3,743	3,743
Other - AFS reserves	(5)	(5)
Total (*)	12,500	12,500

Tier II Capital Instruments (at exchange rates on reporting date) In LKR mio	30th June 2017	31st Dec 2016
Subordinated Term Debt (**)	1,519	1,367
(**) Value considered for CAR	-	-

The Subordinated Term Debt of EUR 8,666,041.86/- was issued by Deutsche Bank Privat- und Geschaftskunden AG on 31st October 2007 for a period of ten (10) years. This instrument complies with the terms and conditions stipulated in Bank Supervision Direction No. 9 of 2007, Maintenance of Capital Adequacy Ratio and was duly approved by the Bank Supervision Department of the Central Bank of Sri Lanka. However, this ceased to be recognized as Tier II capital instrument on 31st October 2016.

Minimum capital requirements

As per Central Bank of Sri Lanka, Bank Supervision Direction No. 9 of 2007 – Maintenance of capital adequacy ratio dated 26th December 2007, the profile of Risk weighted assets and capital ratios of DB Colombo are as follows:

In TLKR		30 June 2017	31st Dec 2016
Core capital	Assigned capital	4,410,461	4,410,461
	Reserves	4,338,866	4,338,866
	Retained earnings	3,756,059	3,756,059
	Other - AFS reserves	(4,828)	(4,828)
Tier I adjustments (Def Tax & I/E balances)		(31,967)	(31,967)
Tier I adjusted capital		12,468,591	12,468,591
Tier II capital	Gen prov	-	-
	Subdebt	-	-
Total Capital		12,468,591	12,468,591
Risk-weighted amount for credit risk		15,524,559	14,367,476
Risk-weighted amount for market risk		292,990	345,660
Risk-weighted amount for operational risk		5,172,646	5,357,634
Total risk-weighted amount		20,990,195	20,070,770
Ratios:			
Min required	Tier I ratio - 5 %	59.40%	62.12%
	Total Capital Ratio - 10 %	59.40%	62.12%

On 29th December 2016, the Central Bank of Sri Lanka issued Banking Act Direction No. 01 of 2016 detailing the minimum capital requirements and minimum disclosure requirements for Licensed Commercial and Specialized Banks under Basel III. For branches of banks incorporated or established outside Sri Lanka, it will be applied on a standalone basis.

Commencing 1st July 2017, the minimum capital requirements and buffers applicable for DB Colombo will be as follows:

Components of capital	**01.07.2017**	**01.01.2018**	**01.01.2019**
Minimum Common Equity Tier (CET) 1	4.50%	4.50%	4.50%
Capital Conservation Buffer (CCB)	1.25%	1.875%	2.50%
CET 1 including Capital Conservation Buffer	5.75%	6.375%	7.00%
Total Tier 1 including Capital Conservation Buffer	**7.25%**	**7.875%**	**8.50%**
Total Capital Ratio including Capital Conservation Buffer	**11.25%**	**11.875%**	**12.50%**

Failure to meet minimum capital requirements can result in supervisory measures such as restrictions of profit distributions or any other measure that will further deteriorate the regulatory capital position of the bank. The capital level of DB Colombo Branch is deemed to be adequate to support current business operations and be compliant of the proposed minimum requirement.

Authorized by DB Colombo Management