Deutsche Bank

KPMG Independent Auditors' Report

Deutsche Bank AG, Colombo Branch
Financial Statements for the year ended
December 31, 2014

Passion to Perform

KPMG
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INDEPENDENT AUDITORS' REPORT

TO THE MANAGEMENT OF DEUTSCHE BANK AG – COLOMBO BRANCH

Report on the Financial Statements

We have audited the accompanying financial statements of Deutsche Bank AG – Colombo Branch ("the Branch"), which comprise the statement of financial position as at December 31, 2014, and the income statement, statement of profit or loss and other comprehensive income, statement of changes in equity and, cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information set out on pages 2 to 63 of the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of these financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Branch as at December 31, 2014, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

CHARTERED ACCOUNTANTS
Colombo, Sri Lanka
24 March 2015

For the year ended 31st December

INCOME STATEMENT

	Notes	2014 Rs.	2013 Rs.
Interest Income	5	2,769,782,761	2,527,751,179
Less : Interest Expenses	5	337,731,517	268,147,228
Net Interest Income		2,432,051,244	2,259,603,951
Fee and Commission Income	6	913,393,468	875,800,652
Less : Fee and Commission Expenses	6	27,476,833	31,694,635
Net Fee and Commission Income		885,916,635	844,106,017
Net Trading Income	7	715,634,322	968,977,763
Other Operating Income	8	72,632,505	85,208,406
Total Operating Income		4,106,234,706	4,157,896,137
Reversal/(Charge) for Impairment on Loan Losses	9	10,877,667	(12,272,779)
Net Operating Income		4,117,112,373	4,145,623,358
Personnel Expenses	10	439,798,053	419,284,686
Other Expenses	11	1,099,197,053	1,328,759,995
Operating Profit Before Value Added Tax and Nation Building Tax on Financial Services	12	2,578,117,267	2,397,578,677
Value Added Tax and Nation Building Tax on Financial Services	13	353,105,192	266,435,959
Profit Before Income Tax		2,225,012,076	2,131,142,718
Less : Income Tax Expenses	14	784,774,630	822,197,968
Profit for the Year		1,440,237,446	1,308,944,750

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	2014 Rs.	2013 Rs.
Profit for the year	1,440,237,446	1,308,944,750
Other Comprehensive Income		
Items that will be never reclassified to profit or loss		
Net acturial loss on Defined Benefit plan	(16,878,137)	-
Items that are or may be reclassified to profit or loss		
Change in Fair Value of Available - for -Sale Financial Assets	156,224,762	33,371,094
Other Comprehensive Income for the year	139,346,625	33,371,094
Total Comprehensive Income for the Year	1,579,584,071	1,342,315,844

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

DEUTSCHE BANK AG - COLOMBO BRANCH
STATEMENT OF FINANCIAL POSITION

As at 31st December

	Notes	2014 Rs.	2013 Rs.
Assets			
Cash and Cash Equivalents	**15**	2,935,395,263	297,137,457
Balances with Central Bank	**16**	13,032,443,249	201,120,880
Placement with Banks	**17**	-	916,300,785
Derivative Financial Instruments	**18**	123,536,106	86,377,891
Financial Investment Held for Trading	**19**	7,329,046,472	14,541,748,959
Group Balances Receivable	**20**	516,640,827	561,019,324
Loans and Receivables to Other Customers	**21**	9,019,578,137	9,063,641,022
Financial investments - Available for Sale	**22**	6,383,941,353	5,971,286,516
Property, Plant and Equipment	**23**	90,353,760	121,548,351
Deferred Tax Assets	**24**	22,053,957	15,630,384
Other Assets	**25**	1,620,479,062	1,355,867,246
Total Assets		**41,073,468,186**	**33,131,678,815**
Liabilities and Equity			
Liabilities			
Due to Banks	**26**	-	2,669,702,598
Derivatives Financial Instruments	**27**	116,674,891	161,890,976
Due to Other Customers	**28**	14,666,992,198	9,732,350,966
Other Borrowings	**29**	350,300,000	232,900,000
Current Tax Liability		259,803,421	200,944,129
Employee Benefits	**30**	122,056,887	98,625,245
Other Liabilities	**31**	355,316,386	279,144,920
Group Balances Payable	**32**	13,621,404,297	7,470,405,817
Subordinated Term Debt	**33**	1,387,742,213	1,564,203,295
Total Liabilities		**30,880,290,293**	**22,410,167,946**
Equity			
Assigned Capital	**34**	4,410,461,270	4,410,461,270
Statutory Reserve Fund	**35**	486,930,013	415,762,048
Retained Earnings	**36**	3,194,276,066	2,932,396,553
Other Reserves	**37**	2,101,510,544	2,962,890,998
Total Equity		**10,193,177,893**	**10,721,510,869**
Total Equity and Liabilities		**41,073,468,186**	**33,131,678,815**
Contingent Liabilities and Commitments	**38**	**19,520,807,898**	**22,889,794,790**

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

The Management is responsible for the preparation and presentation of these Financial Statements.

Approved and signed for and on behalf of the Management:

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Chief Country Officer
Rohan Rodrigo

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Head of Finance
Evelyn Mohamed

24th March 2015
Colombo

DEUTSCHE BANK AG - COLOMBO BRANCH
STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December

	Assigned Capital	Statutory Reserve	Retained earnings	Other Reserves						Total equity
				Available For Sale Reserve	Exchange equalization of Capital	Exchange equalization of Reserve	Investment Fund Account	Reserve through Contributted Assets	Total Other reserves	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at 1st January 2013	4,410,461,270	350,314,811	2,798,119,884	(47,821,402)	119,103,042	133,202,524	581,530,011	-	786,014,175	8,344,910,140
Profit for the year	-	-	1,308,944,750	-	-	-	-	-	-	1,308,944,750
Other comprehensive income (net of tax)	-	-	-	33,371,094	-	-	-	-	33,371,094	33,371,094
Total comprehensive income for the year	-	-	1,308,944,750	33,371,094	-	-	-	-	33,371,094	1,342,315,844
Transactions recognised directly In equity										
Transfer to statutory reserve fund	-	65,447,237	(65,447,237)	-	-	-	-	-	-	-
Profit transfer to head office	-	-	(765,520,831)	-	-	-	-	-	-	(765,520,831)
Special reserves (Note 32.1)	-	-	-	-	-	-	-	1,780,876,243	1,780,876,243	1,780,876,243
Exchange rate equalization of capital	-	-	-	-	27,186,248	-	-	-	27,186,248	27,186,248
Exchange rate effect of currency translation of income & reserve	-	-	-	-	-	(8,256,775)	-	-	(8,256,775)	(8,256,775)
Transfer to Investment Fund Account	-	-	(343,700,013)	-	-	-	343,700,013	-	343,700,013	-
Balance as at 31st December 2013	4,410,461,270	415,762,048	2,932,396,553	(14,450,308)	146,289,290	124,945,749	925,230,024	1,780,876,243	2,962,890,998	10,721,510,869
Balance as at 1st January 2014	4,410,461,270	415,762,048	2,932,396,553	(14,450,308)	146,289,290	124,945,749	925,230,024	1,780,876,243	2,962,890,998	10,721,510,869
Profit for the year	-	-	1,440,237,446	-	-	-	-	-	-	1,440,237,446
Other comprehensive income										
Change in Fair Value of Available - for -Sale Financial Assets	-	-	-	156,224,762	-	-	-	-	156,224,762	156,224,762
Acturial loss in defined benefits plan	-	-	(16,878,137)	-	-	-	-	-	-	(16,878,137)
Total other comprehensive income for the year	-	-	1,423,359,309	156,224,762	-	-	-	-	156,224,762	1,579,584,071
Transactions recognised directly In equity										
Transfer to statutory reserve fund	-	71,167,965	(71,167,965)	-	-	-	-	-	-	-
Profit transfer to head office	-	-	(2,032,599,053)	-	-	-	-	-	-	(2,032,599,053)
Exchange rate equalization of capital	-	-	-	-	2,537,383	-	-	-	2,537,383	2,537,383
Exchange rate effect of currency translation of income & reserve	-	-	-	-	-	(77,855,377)	-	-	(77,855,377)	(77,855,377)
Investment Fund Account balances transfer to Retained earnings	-	-	942,287,221	-	-	(17,057,197)	(925,230,024)	-	(942,287,222)	-
Balance as at 31st December 2014	4,410,461,270	486,930,013	3,194,276,066	141,774,454	148,826,673	30,033,175	-	1,780,876,243	2,101,510,544	10,193,177,893

Figures in brackets indicate deductions.

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

DEUTSCHE BANK AG - COLOMBO BRANCH
CASH FLOW STATEMENT

For the year ended 31st December	Note	2014 Rs.	2013 Rs.
Cash Flows from Operating Activities			
Profit before taxation		**2,225,012,076**	2,131,142,718
Adjustment for:			
Non-cash items included in profits before tax	40	**660,667,795**	869,111,146
Interest expense on subordinate debts		**27,720,096**	28,881,033
Change in operating assets	41	**(5,165,018,635)**	(9,960,715,480)
Change in operating liabilities	42	**7,775,390,598**	7,030,616,763
Net gain from investing activities		**(596,250)**	(416,250)
Contribution paid to defined benefit plans		**(10,646,590)**	(2,250,000)
Tax paid		**(732,338,909)**	(910,618,595)
Net cash generated from/(used in) operating activities		**4,780,190,181**	(814,248,665)
Cash Flows from Investing Activities			
Purchase of property, plant and equipment		**(5,833,835)**	(44,815,165)
Dividend received from investment		**596,250**	416,250
Net unrealised gain / loss from translation of Financial statements of Foreign Operation		**(75,317,994)**	18,929,470
Net cash used in generated investing activities		**(80,555,579)**	(25,469,445)
Cash Flows from Financing Activities			
Interest paid on subordinated debt		**(28,777,744)**	(24,812,122)
Profit transfer to head office		**(2,032,599,053)**	(765,520,831)
Net cash used in financing activities		**(2,061,376,797)**	(790,332,953)
Net increase/(decrease) in cash & cash equivalents		**2,638,257,806**	(1,630,051,063)
Cash and cash equivalents at the beginning of the year		**297,137,457**	1,927,188,520
Cash and cash equivalents at the end of the year		**2,935,395,263**	297,137,457

1. REPORTING ENTITY

1.1 Reporting entity

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

1.2 Principal activities

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

1.3 Number of employees

The permanent staff strength of the Branch as at 31 December 2014 is 63 (2013 - 63)

2. BASIS OF PREPARATION

2.1 Statement of compliance

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

2.2 Management Responsibility on Financial Statements

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

These Financial Statements include the following components:

- an Income Statement and a Statement of Profit or Loss and Other Comprehensive Income providing the information on the financial performance of the Branch for the year ;
- a Statement of Financial Position providing the information on the financial position of the Branch as at the year-end ;
- a Statement of Changes in Equity depicting all changes in shareholders' funds during the year of the Branch ;
- a Statement of Cash Flows providing the information to the users, on the ability of the Branch to generate cash and cash equivalents and the needs of entities to utilise those cash flows ;
- Notes to the Financial Statements comprising Accounting Policies and other explanatory information.

2.3 Approval of Financial Statements by the Management

These Financial Statements were authorised for issue by the Management on 24 March 2015.

2.4 Basis of measurement

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

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

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

2.5 Basis of consolidation

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

2.6 Presentation of Financial Statements

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

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

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

2.7 Materiality and Aggregation

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

2.8 Comparative Information

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

2.9 Use of estimates and judgments

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

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

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

- Impairment of Financial instruments (Note 3.6.9)
- Impairment of non financial assets (Note 3.7)
- Current taxation (Note 3.3.1.a)
- Deferred taxation (Note 3.3.1.b)
- Defined Benefit Plan (Note 3.13.3)
- Commitments and Contingencies (Note 3.15)

3. SIGNIFICANT ACCOUNTING POLICIES

The Branch has adopted SLFRS 13 'Fair Value Measurement' with a date of initial application of 1st January 2014. Except for the changes specified above, the Accounting policies set out below have been consistently applied to all period presented in these Financial Statements.

3.1 Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Branch at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

3.2 Translation of Measurement Currency

The Branch uses Sri Lankan Rupees as their measurement currency for Domestic Banking Unit and United State Dollars as their measurement currency for Foreign Currency Banking Unit books.

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

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

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

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

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

All exchange differences resulting from translation in accordance with the above are recognised directly in equity

3.3 Taxation

3.3.1 Income Tax Expenses

Income tax expense comprises current and deferred tax. It is recognised in Income Statement except to the extent that it relates to items recognised directly in equity or in OCI.

a) Current Taxation

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

b) Deferred Taxation

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

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

3.3.2 Other taxes

a) Crop Insurance Levy (CIL)

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

b) Value Added Tax on Financial Services

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

c) Nation Building Tax on Financial Services (NBT)

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

The amount of Value Added Tax and NBT charged in determining the profit or loss for the period is given in the Income Statement on page 02

ASSETS AND BASES OF THEIR VALUATION

3.4 Cash and cash equivalents

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

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

3.5 Statutory deposits with Central Bank

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

3.6 Financial Instruments - Classification, Initial Recognition and Subsequent Measurement

3.6.1 Classification

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

3.6.2 Financial assets

Initial Recognition

The Branch initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date at which they are originated. Regular way purchases and sales of financial assets are recognised on the trade date at which the branch commits to purchase or sell the asset. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the branch becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

Financial Asset Derecognition

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

The Branch derecognizes a transferred financial asset if it transfers substantially all the risks and rewards of ownership and it does not retain control of the financial asset.

In transactions in which substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, the Branch derecognizes the transferred asset if control over that asset, i.e. the practical ability to sell the transferred asset, is relinquished. The rights and obligations retained in the transfer are recognized separately as assets and liabilities, as appropriate. If control over the asset is retained, the Branch continues to recognize the asset to the extent of its continuing involvement, which is determined by the extent to which it remains exposed to changes in the value of the transferred asset.

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

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss

Subsequent Measurement

a) Financial Instruments at Fair Value through Profit or Loss

The Branch classifies certain financial assets and financial liabilities as either held for trading or designated at fair value through profit or loss. They are carried at fair value and presented as financial assets at fair value through profit or loss and financial liabilities at fair value through profit or loss, respectively. Related realized and unrealized gains and losses are included in net gains (losses) on financial assets/liabilities at fair value through Income Statement.

Financial assets and financial liabilities are designated at fair value through profit or loss in the following circumstances:

i. A group of financial assets or liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy.
ii. The designation eliminates or significantly reduces a measurement or recognition inconsistency.
iii. The asset or liability contains one or more embedded derivatives unless: (a) the embedded derivative does not significantly modify the cash flows that otherwise would be required by the contract; or (b) it is clear with little or no analysis that separation is prohibited.

Financial assets held for trading

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

Financial assets held for trading are recorded in the Statement of Financial Position at fair value. Changes in fair value are recognised in the Income Statement. Interest and dividend income is recorded in 'Net trading income' according to the terms of the contract, or when the right to receive the payment has been established.

The Branch evaluates its financial assets held for trading, other than derivatives, to determine whether the intention to sell them in the near term is still appropriate. When the Branch is unable to trade these financial assets due to inactive markets and management's intention to sell them in the foreseeable future significantly changes, the Branch may elect to reclassify these financial assets in rare circumstances.

The Branch has Sri Lanka Government Securities held for trading designated at fair value through profit or loss.

b) Loans and Receivables

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method. When the Branch chooses to designate the loans and advances as measured at fair value through profit or loss, they are measured at fair value with face value changes recognized immediately in Income Statement.

When the Branch purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognized in the branch's financial statements.

The Branch has classified cash and cash equivalent, balances with Central Bank, group balance receivables and loans and receivables to other customers as Loans and Receivables.

c) Financial Investments Available-for-Sale

Financial assets that are not classified as at fair value through profit or loss or as loans and receivable are classified as AFS. A financial asset classified as AFS is initially recognized at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. The amortization of premiums and accretion of discount are recorded in net interest income. Financial assets classified as AFS are carried at fair value with the changes in fair value reported in statement of profit or loss and other comprehensive income, unless the asset is subject to a fair value hedge. For monetary financial assets classified as AFS (for example, debt instruments), changes in carrying amounts relating to changes in foreign exchange rate are recognized in the income statement and other changes in carrying amount are recognized in equity as indicated above. For financial assets classified as AFS that are not monetary items (for example, equity instruments), the gain or loss that is recognized in equity includes any related foreign exchange component.

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

Reclassification of Financial Assets

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

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

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

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

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

3.6.3 Derivatives

Derivatives are used to manage exposures to interest rate, foreign currency, credit and other market price risks, including exposures arising from forecast transactions. All freestanding contracts that are considered derivatives for accounting purposes are carried at fair value on the statement of financial position regardless of whether they are held for trading or non-trading purposes.

Changes in fair value on derivatives held for trading are included in gain (loss) on financial assets/liabilities at fair value through profit or loss.

3.6.4 Financial liabilities

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

3.6.5 Derecognition of Financial Liabilities

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

3.6.6 Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Income and expenses are presented on a net basis only when permitted under SLFRSs, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

3.6.7 Amortised cost measurement

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

3.6.8 Determination of Fair Value

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

Fair value is defined as the price at which an asset or liability could be exchanged in a current transaction between knowledgeable, willing parties, other than in a forced or liquidation sale. The fair value of instruments that are quoted in active markets is determined using the quoted prices where they represent those at which regularly and recently occurring arm's length transactions take place. The branch uses valuation techniques to establish the fair value of instruments where prices quoted in active markets are not available. Therefore, where possible, parameter inputs to the valuation techniques are based on observable data derived from prices of relevant instruments traded in an active market. These valuation techniques involve some level of management estimation and judgment, the degree of which will depend on the price transparency for the instrument or market and the instrument's complexity. The valuation process to determine fair value also includes making appropriate adjustments to the valuation model outputs to consider factors such as bid-offer spread valuation adjustments, liquidity and credit risk (both counterparty credit risk in relation to financial assets and the non-performance in relation to financial liabilities).

The financial instruments carried at fair value have been categorized under the three levels of the IFRS fair value hierarchy as follows:

Level 1 – Instruments valued using quoted prices in active markets are instruments where the fair value can be determined directly from prices which are quoted in active, liquid markets and where the instrument observed in the market is representative of that being priced in the Group's inventory. These include: government bonds, exchange-traded derivatives and equity securities traded on active, liquid exchanges.

Level 2 – Instruments valued with valuation techniques using observable market data are instruments where the fair value can be determined by reference to similar instruments trading in active markets, or where a technique is used to derive the valuation but where all inputs to that technique are observable. These include: many OTC derivatives; many investment-grade listed credit bonds; some CDS; many collateralized debt obligations (CDO); and many less-liquid equities.

Level 3 - Instruments valued using valuation techniques using market data which is not directly observable are instruments where the fair value cannot be determined directly by reference to market-observable information, and some other pricing technique must be employed. Instruments classified in this category have an element which is unobservable and which has a significant impact on the fair value.

3.6.9 Identification and measurement of impairment

At each reporting date, the branch assesses whether there is objective evidence that a financial asset not carried at fair value through profit and loss or a group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred if there is:

— objective evidence of impairment as a result of a loss event that occurred after the initial recognition of the asset and up to the reporting date ("a loss event");
— the loss event had an impact on the estimated future cash flows of the financial asset or the group of financial assets; and

— a reliable estimate of the loss amount can be made.
The Branch first assesses whether objective evidence of impairment exists individually for loans that are individually significant. It then assesses collectively for loans that are not individually significant and loans which are significant but for which there is no objective evidence of impairment under the individual assessment.

Impairment of Financial Assets carried at amortized Cost

a) Individual Assessment of Impairment

To allow the Branch to determine whether a loss event has occurred on an individual basis, all significant counterparty relationships are reviewed periodically. This evaluation considers current information and events related to the counterparty, such as the counterparty experiencing significant financial difficulty or a breach of contract, for example, default or delinquency in interest or principal payments. If there is evidence of impairment leading to an impairment loss for an individual counterparty relationship, then the amount of the loss is determined as the difference between the carrying amount of the loan(s), including accrued interest, and the present value of expected future cash flows discounted at the loan's original effective interest rate or the effective interest rate established upon reclassification to loans, including cash flows that may result from foreclosure less costs for obtaining and selling the collateral. The carrying amount of the loans is reduced by the use of an allowance account and the amount of the loss is recognized in the income statement as a component of the provision for credit losses.

b) Collective assessment of Impairment

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

The computation is carried out on a centralized basis and the branch is advised on the provision applicable to the country. Accordingly related provision is made in the Financial Statements.

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

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

When it is considered that there is no realistic prospect of recovery and all collateral has been realized or transferred to the Branch, the loan and any associated allowance is written off. Subsequent recoveries, if any, are credited to the allowance account and recorded in the income statement as a component of the provision for credit losses.

The process to determine the provision for off-balance sheet positions is similar to the methodology used for loans. Any loss amounts are recognized as an allowance in the Statement of Financial Position within other liabilities and charged to the income statement as a component of the provision for credit losses.

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

Impairment of Financial Investments - Available for Sale

For financial assets classified as AFS, the Branch assesses at each reporting date whether there is objective evidence that an individual asset is impaired.

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

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

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

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

3.7 Impairment of non-financial assets

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

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

Impairment losses are recognised in Income Statement.

3.8 Property, plant and equipment

3.8.1 Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses if any.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Cost also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment, and is recognised in other operating income/other overhead expenses in the income statement.

3.8.2 Subsequent costs

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

3.8.3 Depreciation

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives for the current and comparative years are as follows:

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

Depreciation of an asset begins when it is available for use and ceases at the earlier of the dates on which the asset is classified as held for sale or is derecognised.

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

LIABILITIES AND PROVISIONS

3.9 Deposits and subordinated liabilities

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

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

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

3.10 Repurchase Agreements

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

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

3.11 Provisions

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

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

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

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

3.12 Financial guarantees

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

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

Any increase in the liability relating to guarantees is recorded in the statement of income in provision for credit losses.

3.13 Employee benefits

3.13.1 Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Branch has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

3.13.2 Defined contribution plans

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

3.13.3 Defined benefit plan

a) Retiring Gratuity

A defined benefit plan is a post employment benefit plan other than a defined contribution plan.

Gratuity is a defined benefit plan. The Branch accounts for the provision for Defined Benefit Plan – Gratuity in conformity with LKAS 19 – Employee Benefits. However, under the payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of five years of continued service.

The Branch measures the present value of promised retirement benefits of gratuity using the actuarial valuation method as recommended by LKAS 19- Employee Benefits, with the advice of a Consultant Actuary.

The Gratuity liability is not externally funded.

Recognition of actuarial gain/ (losses)

The Branch recognizes all actuarial gains and losses arising from defined benefit plans in statement of profit or loss and other comprehensive income in the period in which they arise.

b) Share based payment transactions

Restricted Equity Award (REA)

Total compensation decisions to employees are generally communicated in February each year. Individuals receiving deferred compensation delivered as a Restricted Equity Award ("REA") will have this vest on a pro rata basis over three years. In order to calculate the number of Deutsche Bank ('DB') share units in an individual REA, the EUR equivalent value of the Award (using the Branch's 2014 year-end exchange rates) is divided by the average closing DB share price during the first ten trading days of February of the following performance year. A premium, consisting of an additional 5% of DB Share units, will be added to the Award. This premium does not form part of Total Compensation, and reflects the fact that the Award does not attract annual dividends. Valuation of shares is conducted on a centralized basis at the group level. Branch is advised on the apportionment. This amount is charged to the statement of income as an expense.

3.14 Investment Fund Account

Branches were required to transfer 8% of the profits calculated for the payment of Value Added Tax (VAT) on financial services and 5% of the profits before tax calculated for the payment of income tax to a fund identified as 'Investment Fund Account' (IFA) for a period of three years as per a proposal made in Government Budget 2011. Since the above mentioned three year period has lapsed the Branch has transferred the balance in the above reserve fund to retained earnings during 2014.

3.15 Commitments and Contingencies

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

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

INCOME STATEMENT

3.16 Interest income / expense

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

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

3.17 Fee and Commission income / expense

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

3.18 Dividends

Dividend income is recognized when the right to receive income is established. Usually this is the ex-dividend date for equity where the Branch receives on its mandatory investments in Lanka Clear (Pvt). Ltd and Credit Information Bureau of Sri Lanka. These are accounted for in Net Other Operating Income in the Income Statement.

3.19 Net trading income

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

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

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

3.21 Other expenses

The expenditure incurred on personal cost, premises, equipment and establishment has been apportioned between the FCBU and the DBU based on the volume of transactions.

3.22 Lease payments

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

3.23 Value Added Tax on financial services

The basis for the computation of Value Added Tax on financial services is the accounting profit before income tax adjusted for economic depreciation and emoluments of employees computed on the prescribed rate.

CASH FLOW STATEMENT

The cash flow statement has been prepared by using the "Indirect Method" of preparing of cash flow statement in accordance with the LKAS 7, Cash Flow Statements.

Segment Reporting

An operating segment is a component of the Branch that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Branch's other components, whose operating results are reviewed regularly by the *Management Committee* to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

These include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, head office expenses, and tax assets and liabilities.

The following business segments represent the Group's organizational structure as reflected in its internal management reporting systems as of December 31, 2014.

- Corporate Banking & Securities (CB&S)
- Global Transaction Banking (GTB)
- Deutsche Asset & Wealth Management (Deutsche AWM)
- Asset & Wealth Management (AWM)
- Private & Business Clients (PBC)
- Non-Core Operations Unit (NCOU)

Of the above, only Corporate Banking & Securities (CB&S) business and Global Transaction Banking (GTB) business is represented in Sri Lanka.

Corporate Banking & Securities (CB&S) comprises the Markets and Corporate Finance business divisions. These businesses offer financial products worldwide and combine the sales, trading and structuring of a wide range of financial market products, including bonds, equities and equity-linked products, exchange-traded and over-the-counter derivatives, foreign exchange, money market instruments and securitized instruments. CB&S serves corporate and institutional clients, ranging from multinational corporations to banks and sovereign organizations

Global Transaction Banking (GTB) consists of the business divisions Trade Finance and Cash Management and Securities Services. It provides commercial banking products and services for both corporate clients and financial institutions worldwide, including domestic and cross-border payments, risk management and financing of international trade as well as trust, agency, depositary, custody and related services. GTB serves corporate and institutional clients, ranging from medium-sized enterprises to multinational corporations, financial institutions and sovereign organizations.

4. New Accounting Standards issued but not yet effective

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

Accounting Standards	Summary of the requirements	Possible impact on financial statements
SLFRS 9 - Financial Instruments	SLFRS 9, issued in 2014, replaces the existing guidance in LKAS 39 Financial Instruments: Recognition and Measurement. SLFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from LKAS 39. Effective date of SLFRS 9 has been deferred till January 01, 2018.	The Branch is assessing the potential impact on its financial statements resulting from the application of SLFRS 9. Given the nature of the Branch's operations, this standard is expected to have a pervasive impact on the financial statements. In particular, calculation of impairment of financial instruments on an expected credit loss basis is expected to result in an increase in the overall level of impairment allowances.
SLFRS 15 - Revenue from Contracts with Customers	SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including LKAS 18 on Revenue, and LKAS 11 on Construction Contracts. SLFRS 15 is effective for annual reporting periods beginning on or after January 01, 2017.	No significant impact is expected by applying this standard.

The Branch plans to apply these standards on the respective effective dates.

The following new Accounting Standards are not expected to have an impact on the Financial Statements of the Branch.

- Agriculture: Bearer Plants (Amendments to LKAS 16 and LKAS 41). Effective date I January 2016
- Regulatory Deferral Assets (SLFRS 14)- Effective date I January 2016

For the year ended 31st December	2014	2013
	Rs.	Rs.
5. Net Interest Income		
Interest Income		
Placements with banks	**608,690,736**	50,287,948
Financial assets held-for-trading	**1,302,200,723**	1,266,900,011
Loans and receivables to other customers	**475,930,114**	774,515,710
Financial investments - Available-for-sale	**382,961,188**	436,047,510
	2,769,782,761	2,527,751,179
Interest expenses		
Due to banks	**(169,415,063)**	(135,159,781)
Due to other customers	**(153,430,928)**	(119,632,738)
Treasury bills, treasury bonds and other money market instruments	**(14,885,526)**	(13,354,709)
	(337,731,517)	(268,147,228)
Net Interest Income	**2,432,051,244**	2,259,603,951

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

6. Net Fee and Commission Income		
Fee and Commission Income		
Guarantees	**44,544,685**	27,937,523
Trade and remittances	**93,225,742**	120,618,459
Other Banking Services	**775,623,041**	727,244,670
	913,393,468	875,800,652
Fee and Commission Expense	**(27,476,833)**	(31,694,635)
	885,916,635	844,106,017
7. Net Trading Income		
Foreign Exchange Income		
From banks	**272,849,086**	123,081,632
From others customers	**294,569,405**	771,901,204
	567,418,491	894,982,836
Net Unrealized Forward Exchange Gain / (Loss)	**82,376,193**	50,813,622
Gains/(Loss) on Financial Assets Held For Trading		
Capital loss from treasury bills/bonds	**(1,122,734)**	(241,196)
Capital gains on treasury bills/bonds	**84,551,184**	40,906,231
Un realised loss on treasury bills/bonds	**(44,482,117)**	(68,750,150)
Un realised gain on treasury bills/bonds	**26,893,305**	51,266,420
	65,839,638	23,181,305
	715,634,322	968,977,763
8. Other Operating Income		
Dividend Income	**596,250**	416,250
Intergroup recoveries	**53,006,076**	52,184,321
Cost recoveries from customers	**19,030,179**	32,607,835
	72,632,505	85,208,406

For the year ended 31st December	2014	2013
	Rs.	Rs.
9. Reversal/(Charge) for Impairment on Loan Losses		
Loans and Receivables -To other customers		
Reversal of Allowances for collective impairments (Note 21.1)	7,059,189	927,748
Reversal /(Charge) allowance for Off Balance Sheet collective impairments (Note 31.1)	3,730,362	(8,914,753)
Exchange rate changes / Others	88,116	(4,285,774)
	10,877,667	(12,272,779)
10. Personnel Expenses		
Salary and bonus	245,714,202	255,368,972
Contribution to defined contribution plans	55,105,274	47,932,635
Contribution to defined benefit plans	17,200,095	18,801,628
Share based expenses	-	379,141
Other allowances and staff related expenses	121,778,482	96,802,310
	439,798,053	419,284,686
11. Other Expenses		
Auditors' remunerations	910,100	910,123
Audit related expenses	650,000	650,055
Non-audit fees to auditors	555,159	2,539,478
Professional and legal expenses	2,294,470	5,049,628
Depreciation of property, plant and equipment	36,976,684	32,791,015
Head office Expenses	617,228,824	808,866,220
Office administration and establishment expenses	429,986,772	430,790,793
Provision for penalty charges	-	33,244,240
Crop Insurance Levy (Note 11.1)	10,595,044	13,918,443
	1,099,197,053	1,328,759,995
11.1 Crop Insurance Levy		
Crop Insurance for the year	14,690,246	13,918,443
Over Provision for the year 2013	(4,095,202)	-
	10,595,044	13,918,443

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

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

	2014	2013
Auditors Remuneration		
Statutory audit	910,100	910,123
Audit related services	650,000	650,055
Non audit services	555,159	2,539,478
Depreciation	36,976,684	32,791,015
Personnel Cost	439,798,053	419,284,686
Professional and legal expenses	2,294,470	5,049,628
13. Value Added Tax and Nation Building Tax on Financial Services		
Value Added Tax	296,789,747	266,435,959
Nation Building Tax	56,315,445	-
	353,105,192	266,435,959
14. Income Tax Expenses		
Current tax charge for the year	791,198,203	756,932,888
Adjustment in respect of prior years	-	66,194,838
Over Provision	-	(550,158)
	791,198,203	822,577,568
Deferred Tax Expense		
Origination of deferred tax assets (Note 24)	(6,423,573)	(379,600)
	784,774,630	822,197,968

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

	2014	2013
Domestic Banking Unit	28%	28%
Foreign Currency Banking Unit		
On- shore operations	28%	28%
Off- shore operations	28%	28%

14.2 Reconciliation of Accounting Profit and Taxable Profit

	2014	2013
Profit before income tax	2,225,012,076	2,131,142,718
Income tax for the period (Accounting profit @ applicable tax rate 28 %)	623,003,381	596,719,961
Tax effect of exempt income	(166,950)	(116,550)
Tax effect of expenses that are not deductible for tax purpose	186,660,208	179,342,985
Tax effect of expenses that are deductable for tax purpose	(18,298,436)	(19,013,508)
Tax expense for the period	791,198,203	756,932,888

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

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

Accordingly, the net income earned by the Bank from the secondary market transaction in Government Securities for the year, has been grossed up in the Financial Statements amounting to Rs.2,171,250,596/- (2013: Rs.1,586,889,951/-) and the resulting notional tax credit Rs.217,125,060/- (2013: Rs 158,688,950/-).

As at 31st December	2014	2013
	Rs.	Rs.
15. Cash and Cash Equivalents		
Cash in hand	**188,940,927**	215,349,174
Balances with banks	**2,746,454,336**	81,788,283
	2,935,395,263	297,137,457
16. Balances with Central Bank		
Statutory balances with Central Bank of Sri Lanka (Note 16.1)	**457,443,249**	201,120,880
Non -Statutory balances with Central Bank of Sri Lanka		
Standing deposit facility	**2,225,000,000**	-
Reverse Repo with CBSL	**10,350,000,000**	-
	13,032,443,249	201,120,880

16.1 This represents Statutory Reserve Requirement to be maintained with Central Bank of Sri Lanka under section 93 of the Monitory Act Chapter 422 At present, the minimum cash requirement is 6 % (2013 -6%) of the Rupee Deposit Liabilities. There is no reserve requirement on deposit liabilities of the foreign currency deposit liabilities of the foreign currency banking unit (FCBU) and foreign currency deposit liabilities of the Domestic Banking unit (DBU).

	2014	2013
17. Placement with Banks		
Placements with foreign banks in foreign currency	-	916,300,785
	-	916,300,785
18. Derivative Financial Instruments		
Forward foreign exchange contracts	**123,536,106**	86,377,891
	123,536,106	86,377,891
19. Financial Investments Held for Trading		
Sri Lanka Government Securities		
Treasury Bills	**1,735,604,000**	11,389,146,446
Treasury Bonds	**5,593,442,472**	3,152,602,513
	7,329,046,472	14,541,748,959
20. Group Balances Receivable		
Branches (Branches of Deutsche Bank AG - Frankfurt)	**296,800,554**	272,174,517
Subsidiaries of Deutsche Bank AG - Frankfurt	**579,446**	152,793,716
Inter-group receivable	**219,260,827**	136,051,091
	516,640,827	561,019,324

As at 31st December	2014	2013
	Rs.	Rs.
21. Loans and Receivables to Other Customers		
21.1 Loans and Receivables by product, Net of Impairment		
Loans and Receivables to customers at amortised cost		
Overdrafts	**3,195,534,515**	2,081,122,093
Trade finance	**3,751,032,063**	4,126,590,727
Staff loans	**143,690,934**	146,753,295
Supplier Finance	**1,990,279,139**	2,777,192,610
	9,080,536,651	9,131,658,725
Collective allowances for impairment (Note 21.1.1)	**(60,958,514)**	(68,017,703)
	9,019,578,137	9,063,641,022

21.1.1 Allowance for impairment

Collective allowances for impairment		
Balance at the beginning of the year	**68,017,703**	68,945,451
Impairment loss / (reversal) for the year	**(7,059,189)**	(927,748)
Balance at the end of the year	**60,958,514**	68,017,703

21.2 Concentration of credit risk

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

Agriculture	**1,450,454,587**	1,266,515,899
Financial and Business Services	**64,679,820**	1,791,606
Manufacturing	**3,024,465,538**	999,910,425
Tourism	**200,004,709**	95,395,128
Construction	**83,313,608**	80,982,275
Traders	**1,589,736,151**	3,735,686,649
New economy	**2,505,176,265**	2,403,748,105
Infrastructure	**98,298,822**	479,613,002
Others	**64,407,151**	68,015,636
	9,080,536,651	9,131,658,725

21.3 Exposure to currency risk

Sri Lankan Rupee	**4,389,671,086**	5,019,722,158
United States Dollar	**4,690,865,565**	4,111,936,567
	9,080,536,651	**9,131,658,725**

As at 31st December	2014	2013
	Rs.	Rs.

22. Financial Investments-Available for Sale

Sri Lanka Government Securities (Note 22.1)	**6,382,341,353**	5,969,686,516
Investment in unquoted shares (Note 22.2)	**1,600,000**	1,600,000
Net Available for sale investment	**6,383,941,353**	5,971,286,516

22.1 Sri Lanka Government Securities

- Treasury Bill	**1,474,569,000**	2,407,234,850
- Treasury Bond	**2,273,619,240**	944,457,949
- Development Bond	**2,634,153,113**	2,617,993,717
	6,382,341,353	5,969,686,516

22.2 Investment in Unquoted Shares

Credit Information Bureau of Sri Lanka	**100,000**	100,000
- 100 Ordinary shares of Rs.1,000/- each		
Lanka Clear (Private) Limited	**1,500,000**	1,500,000
- 150,000 Ordinary shares of Rs. 10/- each		
	1,600,000	1,600,000

23. Property, Plant and Equipment

Refer next page

24. Deferred Tax Assets

Balance at the beginning of the year	**15,630,384**	15,250,784
Origination during the year	**6,423,573**	379,600
Balance at the end of the year	**22,053,957**	15,630,384

25. Other Assets

Deposits and prepayments	**65,072,826**	92,465,461
Interest receivables	**319,932,876**	134,573,779
Clearing account balance	**1,233,916,438**	1,122,713,850
Others	**1,556,922**	6,114,156
	1,620,479,062	1,355,867,246

26. Due to Banks

Borrowings	-	2,669,702,598
	-	2,669,702,598

27. Derivatives Financial Instruments

Forward foreign exchange contracts	**116,674,891**	161,890,976
	116,674,891	161,890,976

As at 31st December

23. Property, plant & equipment

	Computer Equipment Rs.	EDP Main Frame Rs.	Safes Rs.	Paintings & Art Objects Rs.	Telephone & Telex Rs.	Office Equipment Rs.	Furniture & Fittings Rs.	Total 2014 Rs.	Total 2013 Rs.
Cost									
As at 1st January	58,792,502	77,936,870	1,876,527	744,000	38,601,250	22,262,722	113,605,253	313,819,124	271,857,825
Additions	5,274,175	-	-	-	175,980	162,500	221,180	5,833,835	44,815,165
Disposals / Write off	(4,568,628)	-	-	-	(775,701)	(163,589)	(674,272)	(6,182,190)	(2,853,867)
As at 31st December	59,498,049	77,936,870	1,876,527	744,000	38,001,529	22,261,633	113,152,161	313,470,769	313,819,123
Accumulated Depreciation									
As at 1st January	47,606,250	50,015,856	1,605,176	743,996	20,847,897	14,093,118	57,358,480	192,270,772	162,047,489
Charge for the year	5,674,775	10,495,238	111,580	-	3,966,561	2,330,497	14,398,034	36,976,685	32,791,026
Disposals / Write off	(4,549,292)	-	-	-	(743,303)	(163,586)	(674,267)	(6,130,448)	(2,567,743)
As at 31st December	48,731,733	60,511,094	1,716,756	743,996	24,071,155	16,260,029	71,082,247	223,117,009	192,270,772
Carrying Amount									
As at 31st December 2014	**10,766,316**	**17,425,776**	**159,771**	**4**	**13,930,374**	**6,001,604**	**42,069,914**	**90,353,760**	
As at 31st December 2013	11,186,252	27,921,014	271,351	4	17,753,353	8,169,604	56,246,773		121,548,351

The cost of fully depreciated assets which are still in use is Rs.123,326,268/- (2013 -Rs.119,850,792/-) as at reporting date

As at 31st December	2014 Rs.	2013 Rs.
28. Due to Other Customers		
Due to Other Customers	14,666,992,198	9,732,350,966
	14,666,992,198	9,732,350,966
28.1 Analysis by product		
Demand deposits (current accounts)	8,282,506,747	7,018,344,872
Savings deposits	4,316,781,853	1,365,671,723
Margin Deposits	24,799,193	618,084,998
Fixed and Other deposits	2,042,904,405	730,249,373
	14,666,992,198	9,732,350,966
28.2 Analysis by currency		
Sri Lanka Rupee	10,644,565,511	6,426,948,799
United States Dollar	3,633,838,655	2,709,756,195
Great Britain Pound	4,130,854	17,004,115
Euro	231,514,751	305,601,668
Hongkong Dollar	1,589	1,586
Singapore Dollar	1,454,684	3,747,909
Japanese Yen	5,287,517	49,607
Australian Dollar	2,402,537	3,875,026
Canadian Dollar	4,499	4,888
Swiss Frank	143,791,601	265,361,173
	14,666,992,198	9,732,350,966
29. Other Borrowings		
Securities sold under repurchase (repo) agreement	350,300,000	232,900,000
	350,300,000	232,900,000
30. Employee Benefits		
Retirement Benefit Obligation - Gratuity		
Balance as at 1st January	98,625,245	82,073,617
Actuarial valuation adjustment	34,078,232	18,801,628
Payments during the year	(10,646,590)	(2,250,000)
Balance as at 31st December	122,056,887	98,625,245
30.1 Expense Recognised in the income statement		
Current service cost	9,862,524	9,730,210
Interest cost	7,337,571	9,071,418
	17,200,095	18,801,628
30.2 Acturial loss recognised in Statement of Profit or loss and other Comprehensive income		
Actuarial loss	16,878,137	-
Total	34,078,232	18,801,628

LKAS 19 requires the use of actuarial techniques to make a reliable estimate of the amount of retirement benefit using the Projected Unit Credit Method in order to determine the present value of the retirement benefit obligation. An actuarial valuation was performed on 03th January 2015 by Mr. M. Poopalanathan, AIA, Messrs. Actuarial and Management Consultants (Pvt) Ltd. The following principal assumptions were made in arriving at the retirement obligation as at 31st December 2014.

	2014	2013
Discount Rate %	8.5%	10%
Expected salary increment rate %	10%	10%
31. Other Liabilities		
Accrued expenditure	125,778,250	143,368,441
Interest payable	38,389	4,932,097
Impairment charges in respect of off-balance (Note 31.1)	19,252,681	22,983,043
Country Risk	2,664,683	2,752,799
DB Provident fund reserve	33,307,536	27,749,900
Other taxes & payables	174,274,847	77,358,640
	355,316,386	279,144,920
31.1 Allowance for off-balance sheet, which consists of contingent liabilities and lending commitments		
Opening balance	22,983,043	14,068,290
Charge/(Write back) to income statement	(3,730,362)	8,914,753
Closing balance	19,252,681	22,983,043

As at 31st December	2014	2013
	Rs.	Rs.
32. Group Balances Payable		
Inter-group expenses payable to HO & branches (Note 32.1)	**1,660,220,783**	1,274,722,653
Borrowings from Head office & Branches	**11,826,318,875**	6,021,484,692
Subsidiaries (Subsidiaries of Deutsche Bank AG - Frankfurt)	**122,717,306**	48,450,699
HO & branches of Deutsche Bank AG	**12,147,333**	125,747,773
	13,621,404,297	7,470,405,817

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

33. Subordinated Term Debt		
Approved subordinated term debt	**1,387,742,213**	1,564,203,295
	1,387,742,213	1,564,203,295

With the prior approval of the Central Bank of Sri Lanka EUR 8,666,041.86 was borrowed from Deutsche Private Geschaftskunden on 31st October 2007, for a period of 10years. The rate at which interest has been paid from January to October 2014 was 1.85 % and November to December 2014 was 1.64%.

34. Assigned Capital		
At the beginning of the year	**4,410,461,270**	4,410,461,270
Increase in assigned capital	**-**	-
At the end of the year	**4,410,461,270**	4,410,461,270

35. Statutory Reserve Fund		
At the beginning of the year	**415,762,048**	350,314,811
Transfer during the year	**71,167,965**	65,447,237
At the end of the year	**486,930,013**	415,762,048

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

36. Retained Earnings		
At the beginning of the year	**2,932,396,553**	2,798,119,884
Profit for the year	**1,440,237,446**	1,308,944,750
Net acturial loss on defined benefit plan	**(16,878,137)**	-
Transfers from / (to) other reserves	**871,119,257**	(409,147,250)
Profits transfer to Head Office (Note 36.1)	**(2,032,599,053)**	(765,520,831)
	3,194,276,066	2,932,396,553

36.1 Profit transfer to Head Office

The retained profit for the year ended 31st December 2011 & 2012, has been transferred to Head Office in 2014, after obtaining approval from the Central Bank of Sri Lanka and the Department of Inland Revenue.

As at 31st December

37. Other Reserves

37.1 Investment Fund Account

Banks were required to transfer 8% of the profits calculated for the payment of Value Added Tax (VAT) on financial services and 5% of the profits before tax calculated for the payment of income tax to a fund identified as 'Investment Fund Account' (IFA) for a period of three years as per a proposal made in Government Budget 2011. Since the above mentioned three year period has lapsed the Branch has transferred the balance in the above reserve fund to the retained earnings during 2014.

37.2 Exchange Equalisation of Capital

Exchange equalisation of capital represents the appreciation /depreciation of capital maintained in foreign currency due to exchange rate fluctuation. The exchange rate fluctuation is being accounted under exchange equalisation of capital.

37.3 Exchange Equalisation of Reserve

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

37.4 Reserve through Contributed Assets

As explained in Note 32.1 This is the un remittable head office expenses reported upto end of financial year 2011, converted to equity during the financial year 2013 with the prior written approval of Central Bank of Sri

37.5 (a) Other Reserves - Bank - Current year 2014

	Opening Balance	Movement	Closing Balance
Available-for-sale reserve	(14,450,308)	156,224,762	141,774,454
Investment fund Account (Note 37.1)	925,230,024	(925,230,024)	-
Exchange equalisation of capital (Note 37.2)	146,289,290	2,537,383	148,826,673
Exchange equalisation of reserve (Note 37.3)	124,945,749	(94,912,574)	30,033,175
Reserve through Contributed Assets (Note 37.4)	1,780,876,243	-	1,780,876,243
	2,962,890,998	**(861,380,453)**	**2,101,510,544**

37.5 (b) Other Reserves - Bank - Previous year 2013

	Opening Balance	Movement	Closing Balance
Available-for-sale reserve	(47,821,402)	33,371,094	(14,450,308)
Investment fund Account (Note 37.1)	581,530,011	343,700,013	925,230,024
Exchange equalisation of capital (Note 37.2)	119,103,042	27,186,248	146,289,290
Exchange equalisation of reserve (Note 37.3)	133,202,524	(8,256,775)	124,945,749
Reserve through Contributed Assets (Note 37.4)	-	1,780,876,243	1,780,876,243
	786,014,175	**2,176,876,823**	**2,962,890,998**

As at 31st December

38. Commitments and Contingent Liabilities

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

	2014	2013
	Rs.	Rs.
Commitments		
Guarantees	**3,824,351,169**	4,228,885,298
Letters of credit	**1,892,994,484**	1,484,605,704
Forward exchange contract (net)	**(134,788,279)**	(98,979,990)
Usance Import bill	**696,862,201**	736,251,910
Other commitments	**119,042,952**	45,568,657
	6,398,462,527	6,396,331,579
Contingent liabilities		
Undrawn loan commitments	**13,122,345,371**	16,493,463,211
	13,122,345,371	16,493,463,211
	19,520,807,898	22,889,794,790

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

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

39. Related party transactions

39.1.1 Transaction with Group entities
Amount receivable and payable from /to Group entities disclosed in Notes 20 and 32.

39.1.2 Subordinate Term Debt

With the prior approval of the Central Bank of Sri Lanka EUR 8,666,041.86 was borrowed from Deutsche Private Geschaftskunden on 31st October 2007, for a period of 10years. The rate at which interest has been paid from January to October 2014 was 1.85 % and November to December 2014 was 1.64%.

39.2 Transactions with Key Management Personnel (KMP)

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

The members of the Executive Committees of Deutsche Bank AG and their family members have been classified as KMP of the branch as at 31st December 2014.

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

	2014	2013
	Rs.	Rs.
Compensation to KMP		
Short term employee benefits	**126,116,762**	106,394,972
Post employment benefits	**Nil**	Nil
Termination benefits	**Nil**	Nil
Share based payments	**8,486,502**	9,072,043
Lending facilities granted to KMP	**9,639,778**	14,331,665
Deposits held by KMP with the branch	**3,612,014**	1,691,745

As at 31st December	2014	2013
	Rs.	Rs.
40. Non- Cash items included in Profit Before Tax		
Depreciation of property, plant and equipment	**36,976,685**	32,791,026
Write off of Assets	**51,742**	286,126
Impairment losses on loans and advances	**(7,059,189)**	(927,748)
Off balance sheet impairment	**(3,730,362)**	8,914,753
Charge for defined benefit plans	**17,200,095**	18,801,628
Share based payment expense	**-**	379,141
Head office Expense	**617,228,824**	808,866,220
	660,667,795	869,111,146
41. Change in Operating Assets		
Change in derivative financial instruments	**(37,158,215)**	37,544,829
Change in balance with Central Bank	**(12,831,322,369)**	597,875,791
Change in placement with banks	**916,300,785**	96,599,215
Change in other financial investment held for trading	**7,212,702,487**	(9,243,209,322)
Change in group balance receivable	**44,378,497**	375,646,740
Change in Loans and advances	**51,122,074**	263,735,549
Change in financial investment Available for sale	**(256,430,075)**	(2,343,805,878)
Change in other assets	**(264,611,820)**	254,897,596
	(5,165,018,635)	(9,960,715,480)
42. Change in Operating Liabilities		
Change in due to banks	**(2,669,702,598)**	2,669,702,598
Change in derivative financial instruments	**(45,216,085)**	(88,356,965)
Change in deposits from banks, customers and debt securities issued	**4,934,641,232**	974,674,864
Change in other borrowings	**117,400,000**	88,600,000
Change in other liabilities	**79,901,828**	31,269,762
Change in due to Group balance	**5,533,769,656**	3,244,022,668
Change in subordinated term debts	**(175,403,434)**	110,703,836
	7,775,390,598	7,030,616,763

43. Subsequent Events

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

44. Management Responsibility on Financial Statements

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

45. Financial Risk Management

Risk exposure for each type of financial instrument with changes from prior period

As at 31st December 2014 In TLKR	Carrying Amount	Amortised cost	FVTPL -HFT	AFS	HTM
Assets					
Cash and cash equivalents	2,935,395	2,935,395	-	-	-
Balances with central banks	13,032,443	13,032,443	-	-	-
Placements with banks	-	-	-	-	-
Derivative financial instruments	123,536	-	123,536	-	-
Other financial assets held-for-trading	7,329,046	-	7,329,046	-	-
Loans and receivables to other customers	9,080,537	9,080,537	-	-	-
Financial investments – Available-for-sale	6,383,941	-	-	6,383,941	-
Financial investments – Held-to-maturity	-	-	-	-	-
	38,884,899	25,048,375	7,452,583	6,383,941	-
Liabilities					
Due to banks	-	-			
Derivative financial instruments	116,675	-	116,675	-	-
Other financial liabilities held-for-trading	-	-	-	-	-
Financial liabilities designated at fair value through profit or loss	-	-	-	-	-
Due to other customers	14,666,992	14,666,992	-	-	-
Other borrowings	350,300	-	350,300	-	-
Subordinated term debt	1,387,742	1,387,742	-	-	-
	16,521,709	16,054,734	466,975	-	-

As at 31st December 2013 In TLKR	Carrying Amount	Amortised cost	FVTPL -HFT	AFS	HTM
Assets					
Cash and cash equivalents	297,137	297,137	-	-	-
Balances with central banks	201,121	201,121	-	-	-
Placements with banks	916,300	916,300	-	-	-
Derivative financial instruments	86,378	-	86,378	-	-
Other financial assets held-for-trading	14,541,749	-	14,541,749	-	-
Loans and receivables to other customers	9,131,659	9,131,659	-	-	-
Financial investments – Available-for-sale	5,971,287	-	-	5,971,287	-
Financial investments – Held-to-maturity	-	-	-	-	-
	31,145,630	10,546,216	14,628,127	5,971,287	-
Liabilities					
Due to banks	2,669,703	2,669,703			
Derivative financial instruments	161,891	-	161,891	-	-
Other financial liabilities held-for-trading	-	-	-	-	-
Financial liabilities designated at fair value through profit or loss	-	-	-	-	-
Due to other customers	9,732,351	9,732,351	-	-	-
Other borrowings	232,900	-	232,900	-	-
Subordinated term debt	1,564,203	1,564,203	-	-	-
	14,361,048	13,966,257	394,791	-	-

Group balances not considered credit risk ,hence not considered

Risk Management Framework

The diversity of our business model requires us to identify, assess, measure, aggregate and manage our risks, and to allocate capital among the businesses. The Bank operates as an integrated group through its divisions, business units and infrastructure functions. Risk and capital are managed via a framework of principles, organizational structures and measurement and monitoring processes that are closely aligned with the activities of the divisions and business units. This framework monitors the activities of Deutsche Bank AG– Sri Lanka Branch.

Risk Inventory

Deutsche Bank AG– Sri Lanka Branch faces a variety of risks as a result of its business activities, the most significant of which are described below credit risk, market risk and operational risk attract regulatory capital. As part of our internal capital adequacy assessment process Deutsche Bank AG– Sri Lanka Branch calculates the amount of economic capital that is necessary to cover all material risks generated from its business activities, other than of liquidity risk.

Credit Risk

Credit risk arises from all transactions where actual, contingent or potential claims against any counterparty, borrower, obligor or issuer (which we refer to collectively as "counterparties") exist, including those claims that we plan to distribute (see below in the more detailed section Credit Risk). These transactions are typically part of our traditional non trading lending activities (such as loans and contingent liabilities), traded bonds and debt securities available for sale or our direct trading activity with clients (such as OTC derivatives, foreign exchange forwards and Forward Rate Agreements).

The bank distinguishes between three kinds of credit risk:

- Default (Counterparty) risk, the most significant element of credit risk, is the risk that counterparties fail to meet contractual obligations.

- Settlement risk is the risk that the settlement or clearance of transactions will fail. It arises whenever the exchange of cash, securities and/or other assets is not simultaneous leaving us exposed to a potential loss should the counterparty fail.

- Country risk is the risk that we may experience unexpected default or settlement risk and subsequent losses in a given country, due to a range of macro-economic or social events primarily affecting counterparties in that jurisdiction including : political and social upheaval, nationalization and expropriation of assets, government repudiation of indebtedness, or disruptive currency depreciation or devaluation. Country risk also includes transfer risk which arises when debtors are unable to meet their obligations owing to an inability to transfer assets to non-residents due to direct sovereign intervention.

Risk Concentration

Risk concentrations refer to a loss potential through unbalanced distribution of dependencies on specific risk drivers and can occur within specific risk types (i.e. intra-risk concentrations) as well as across different risk types (inter-risk concentrations). They are encountered within and across counterparties, businesses, regions/countries, legal entities, industries and products, impacting the aforementioned risks. The management of risk concentrations is integrated in the management of individual risk types and monitored on a regular basis. The key objective of managing risk concentrations is to avoid any undue concentrations on our portfolio which we seek to achieve through a quantitative and qualitative approach as follow:

- Intra-risk category review are assessed and monitored by the individual risk disciplines (Credit, Market, Operational Risk Management and others). This is supported by limit setting on different levels according to risk type.
- Inter-risk concentrations are managed by quantitative top-down stress-testing and qualitative bottom-up reviews identifying and assessing risk themes independent of any risk type and providing a holistic view across the bank.

The most senior governance body for the oversight of risk concentrations throughout 2014 was the Portfolio Risk Committee (PRC) which is a subcommittee of the Capital and Risk Committee (CaR) and the Risk Executive Committee (Risk ExCo).

Credit Risk Ratings

A basic and key element of the credit approval process is a detailed risk assessment of each credit-relevant counterparty. When rating a counterparty we apply in-house assessment methodologies, scorecards and our 21-grade rating scale for evaluating the credit-worthiness of counterparties

Monitoring Credit Risk

Ongoing active monitoring and management of credit risk positions is an integral part of our credit risk management framework. The key monitoring focus is on quality trends and on concentrations along the dimensions of counterparty, industry, country and product specific risks to avoid undue concentrations of credit risk. On a portfolio level, significant concentrations of credit risk could result from having material exposures to a number of counterparties with similar economic characteristics, or who are engaged in comparable activities, where these similarities may cause their ability to meet contractual obligations to be affected in the same manner by changes in economic or industry conditions.

The Deutsche Bank AG– Sri Lanka Branch portfolio management framework supports a comprehensive assessment of concentrations within its credit risk portfolio it order to keep concentrations within acceptable levels.

Asset Quality

All loans where known information about possible credit problems of borrowers causes our management to have serious doubts as to the collectability of the borrower's contractual obligations are included in this section

Past Due Loans

Loans are considered to be past due if contractually agreed payments of principal and/or interest remain unpaid by the borrower, except if those loans are acquired through consolidation. The latter are considered to be past due if payments of principal and/or interest, which were expected at a certain payment date at the time of the initial consolidation of the loans, are unpaid by the borrower.

Renegotiated and Forborne Loans

For economic or legal reasons we might enter into a forbearance agreement with a borrower who faces or will face financial difficulties in order to ease the contractual obligation for a limited period of time. A case by case approach is applied for our corporate clients considering each transaction and client specific facts and circumstances. Forbearances are restricted and depending on the economic situation of the client, our risk management strategies and the local legislation. In case a forbearance agreement is entered into, an impairment measurement is conducted as described below, an impairment charge is taken if necessary and the loan is subsequently recorded as impaired.

Loans that have been renegotiated in such a way that, for economic or legal reasons related to the borrower's financial difficulties, we granted a concession to the borrower that we would not otherwise have considered are disclosed as renegotiated loans and are a subset of forborne loans.

Impairment of Loans and Allowance for Loan Losses

Credit Risk Management regularly assesses whether there is objective evidence that a loan or group of loans is impaired. A loan or group of loans is impaired and impairment losses are incurred if:

- there is objective evidence of impairment as a result of a loss event that occurred after the initial recognition of the asset and up to the balance sheet date ("a loss event"). When making our assessment we consider information on such events that is reasonably available up to the date the financial statements are authorized for issuance in line with the requirements of IAS 10;
- the loss event had an impact on the estimated future cash flows of the financial asset or the group of financial assets, and
- a reliable estimate of the loss amount can be made.

Credit Risk Management's loss assessments are subject to regular review in collaboration with Group Finance. The results of this review are reported to and approved by an oversight committee comprised of Group Finance and Risk Senior Management.

If there is evidence of impairment the impairment loss is generally calculated on the basis of discounted expected cash flows using the original effective interest rate of the loan. If the terms of a loan are renegotiated or otherwise modified because of financial difficulties of the borrower without qualifying for a derecognition of the loan, the impairment loss is measured using the original effective interest rate before modification of terms. We reduce the carrying amount of the impaired loan by the use of an allowance account and recognize the amount of the loss in the consolidated statement of income as a component of the provision for credit losses. We record
increases to our allowance for loan losses as an increase of the provision for loan losses in our income statement. Charge-offs reduce our allowance while recoveries, if any, are credited to the allowance account. If we determine that we no longer require allowances which we have previously established, we decrease our allowance and record the amount as a reduction of the provision for loan losses in our income statement. When it is considered that there is no realistic prospect of recovery and all collateral has been realized or transferred to us, the loan and any associated allowance for loan losses is charged off (i.e., the loan and the related allowance for loan losses are removed from the balance sheet). While we assess the impairment for our corporate credit exposures individually, we assess the impairment of our smaller-balance standardized homogeneous loans collectively. Our collectively assessed allowance for non-impaired loans reflects allowances to cover for incurred losses that have neither been individually identified nor provided for as part of the impairment assessment of smaller balance homogeneous loans.

Credit Review Process

According to Deutsche Bank AG, Colombo Branch management, the credit review procedures performed are as below:

Regular credit reviews by relevant regional or global offices: all debtors or debtors' groups are regularly reviewed subject to the policy and procedures applicable in the relevant regional or global offices and also depending on any changes of Deutsche Bank's internal credit rating and updated situations which may affect the repayment ability of reviewed debtors.

Deutsche Bank AG, Colombo Branch does not have approval authority, it normally submits all of the credit review reports to be acknowledged or approved by the regional office.

All non-performing loans shall be managed and monitored by the relevant regional or global office.

There is no credit review policy for loans granted to Deutsche Bank AG, Colombo Branch's staff. The loans are granted to existing staff and their repayment is made by deduction from the employee's salary.

Credit Risk Quantitative disclosures

(a) 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 2014	Gross exposure	Collateral	Net exposure	Description of collateral	Description of Credit Quality
Balances with Central bank of Sri Lanka	2,682,443		2,682,443	n/a	Sovereign Risk
Balances with Banks & Financial Institutions	2,747,034		2,747,034	n/a	99.9 % of exposure with AAA to A- rated counterparts
Placements with Banks	-		-		
Reverse Repurchase Agreements	10,350,000		10,350,000	n/a	Sovereign Risk
Investment in Government Securities	13,711,388		13,711,388	n/a	Sovereign Risk
Other investments	1,600		1,600	n/a	Regulatory mandated investments in Lanka Clear & CRIB, subject to credit risk
Loans and Advances	9,080,537		9,080,537	Refer Note *	6.2% of exposure with AAA to AA- locally rated counterparts. The others are classified as unrated as no local ratings have been issued. However all are performing as at period end.
Total on-balance sheet items	38,573,002	-	38,573,002		
Letters of credit	1,892,994		1,892,994		
Guarantees	2,192,973		2,192,973		
Acceptances	-		-	Refer Note *	Total credit equivalent of off b/s exposures is LKR 3.1 bio, of which 61.08 % of the exposure is with AAA to A- counterparts. All performing as at period end.
Derivatives (gross)	46,614,353		46,614,353		
Undrawn credit lines	13,122,345		13,122,345		
Other	815,905		815,905		
Total off-balance sheet items	64,638,571	-	64,638,571		

In TLKR 31st December 2013	Gross exposure	Collateral	Net exposure	Description of collateral	Description of Credit Quality
Balances with Central bank of Sri Lanka	201,121		201,121	n/a	Sovereign Risk
Balances with Banks & Financial Institutions	81,788		81,788	n/a	99.9 % of exposure with AAA to A- rated counterparts
Placements with Banks	916,300		916,300	n/a	100 % of exposure with A rated counterpart
Reverse Repurchase Agreements	-		-		
Investment in Government Securities	20,511,416		20,511,416	n/a	Sovereign Risk
Other investments	1,600		1,600	n/a	Regulatory mandated investments in Lanka Clear & CRIB, subject to credit risk
Loans and Advances	9,131,659		9,131,659	Refer Note *	7.15 % of exposure with AAA to AA- locally rated counterparts; 0.01 % to A+ to A-. The others are classified as unrated as no local ratings have been issued. However all are performing as at period end.
Total on-balance sheet items	30,843,884	-	30,843,884		
Letters of credit	1,484,606		1,484,606		
Guarantees	1,458,971		1,458,971		
Acceptances	-		-	Refer Note *	Total credit equivalent of off b/s exposures is LKR 3.1 bio, of which 66.29 % of the exposure is with AAA to A- counterparts. All performing as at period end.
Derivatives (gross)	22,644,885		22,644,885		
Undrawn credit lines	16,493,463		16,493,463		
Other	781,821		781,821		
Total off-balance sheet items	42,863,746		42,863,746		

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.

(b) For financial assets that are past due or impaired, disclosures on age, factors considered in determining as impaired and the description of collateral on each class of financial asset.

31 Dec 2014 : No individually impaired assets as at this date

31 Dec 2013 : No individually impaired assets as at this date

(c) Information about collateral or other credit enhancements obtained or called

The Deutsche Bank – Sri Lanka 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.

Deutsche Bank – Sri Lanka Branch segregates 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), collateral assignments of other claims or inventory, equipment (e.g., plant, machinery) 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 and risk participations typically fall into this category.

(d) Other quantitative disclosures

(i) Total gross credit risk exposures, plus average gross exposure over the period broken down by major types of credit exposure.

	2014		2013	
In TLKR	as at 31 Dec	Average	as at 31 Dec	Average
Balances with Central bank of Sri Lanka	2,682,443	749,785	201,121	305,610
Balances with Banks & Financial Institutions	2,747,034	933,042	81,788	2,207,898
Placements with Banks	-	682,490	916,300	122,630
Reverse Repurchase Agreements	10,350,000	8,967,500	-	295,833
Investment in Government Securities	13,711,388	18,020,333	20,511,416	14,986,261
Other investments	1,600	1,600	1,600	1,600
Loans and Advances	9,080,537	7,606,132	9,131,659	9,121,277
Total on-balance sheet items	38,573,002	36,960,881	30,843,884	27,020,672
Letters of credit	1,892,994	3,563,785	1,484,606	2,476,072
Guarantees	2,192,973	2,471,134	1,458,971	2,182,511
Acceptances	-	37,377	-	-
Derivatives (gross)	46,614,353	38,655,527	22,644,885	26,722,531
Undrawn credit lines	13,122,345	14,280,304	16,493,463	15,123,720
Other	815,905	660,683	781,821	1,046,302
Total off-balance sheet items	64,638,571	59,668,809	42,863,746	47,551,136

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

As at 31st Dec 2014 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		2,682,443	2,682,443					
Balances with Banks & Financial Institutions		-	-	14,003	2,591,547		141,484	
Placements with Banks		-	-					
Reverse Repurchase Agreements		10,350,000	10,350,000					
Investment in Government Securities		13,711,388	13,711,388					
Other investments		1,600	1,600					
Loans and Advances	5,838	9,074,698	9,080,537					
Total on-balance sheet items	5,838	35,820,129	35,825,968	14,003	2,591,547	-	141,484	-
Letters of credit		1,867,497	1,867,497	25,498				
Guarantees		1,564,596	1,564,596	251,324		77,661	299,391	
Acceptances		-	-					
Derivatives (gross)		46,614,353	46,614,353	-			-	
Undrawn credit lines		13,122,345	13,122,345					
Other		815,905	815,905					
Total off-balance sheet items	-	63,984,696	63,984,696	276,822	-	77,661	299,391	-
Total Exposure	5,838	99,804,826	99,810,664	290,825	2,591,547	77,661	440,875	-

As at 31st Dec 2013 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		201,121	201,121					
Balances with Banks & Financial Institutions			-	9,302	-		72,486	
Placements with Banks		-	-				916,300	
Reverse Repurchase Agreements		-	-					
Investment in Government Securities		20,511,416	20,511,416					
Other investments		1,600	1,600					
Loans and Advances	6,231	9,125,427	9,131,659					
Total on-balance sheet items	6,231	29,839,564	29,845,795	9,302	-	-	988,786	-
Letters of credit		1,459,176	1,459,176	25,430				
Guarantees		1,195,048	1,195,048	129,543		108,495	25,885	
Acceptances			-					
Derivatives (gross)		22,644,885	22,644,885	-			-	
Undrawn credit lines		16,493,463	16,493,463					
Other		781,821	781,821					
Total off-balance sheet items	-	42,574,394	42,574,394	154,972	-	108,495	25,885	-
Total Exposure	6,231	72,413,958	72,420,189	164,275	-	108,495	1,014,671	-

(iii) Industry or counter-party type distribution of exposures, broken down by major types of credit exposure.

31st December 2014 In TLKR	Bills of Exchange	Overdrafts	Export Finance	Import Finance	Supplier finance	Other	Total
Agriculture & Fishing	-	403,486	-	1,003,117	43,852		1,450,455
Manufacturing		1,327,235		1,689,673	7,558		3,024,465
Tourism		200,005					200,005
Transport		-					-
Construction		-				83,315	83,315
Trading	-	531,500		1,058,236			1,589,736
Telecommunications		664,606		-	1,840,570		2,505,176
Financial & Business Services		64,680					64,680
Infrastructure		-			98,299		98,299
Consumption		4,024				60,383	64,407
Total	-	3,195,535	-	3,751,025	1,990,279	143,698	9,080,537

31st December 2013 In TLKR	Bills of Exchange	Overdrafts	Export Finance	Import Finance	Supplier finance	Other	Total
Agriculture & Fishing	-	337,690	-	811,580	117,246		1,266,516
Manufacturing		258,555		732,105	9,250		999,910
Tourism		95,395					95,395
Transport		333,160					333,160
Construction		-				80,982	80,982
Trading	-	906,979		2,495,290			3,402,269
Telecommunications		137,199		85,113	2,181,436		2,403,748
Financial & Business Services		1,792					1,792
Infrastructure		10,353			469,260		479,613
Consumption						68,274	68,274
Total	-	2,081,122	-	4,124,088	2,777,193	149,256	9,131,659

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

		31-Dec-14		31-Dec-13	
In Tlkr	Type	Utlisation/Exposure	Total	Utlisation/Exposure	Total
< 1 year	On-balance sheet	30,680,927		25,481,545	
	Off-Balance Sheet	60,663,094	91,344,021	40,060,331	65,541,876
1 year- 5 years	On-balance sheet	7,120,674		4,446,866	
	Off-Balance Sheet	3,975,477	11,096,151	2,803,415	7,250,282
> 5 years	On-balance sheet	771,401		915,473	
	Off-Balance Sheet		771,401		915,473

(v) Amount of past due loans/impaired loans by industry, counterparty with details of specific and general loan loss provisioning.

31 Dec 2014 In TLKR	Telecom	Manufacturing
Total impaired loans as at 31 Dec	-	-
Specific LLP as at 1 Jan	-	-
Additional Provisions	-	-
Recoveries	-	-
Total Specifc LLP as at 31 Dec	-	-

31 Dec 2013 In TLKR	Telecom	Manufacturing
Total impaired loans as at 31 Dec	-	-
Specific LLP as at 1 Jan	-	-
Additional Provisions	-	-
Recoveries	-	-
Total Specifc LLP as at 31 Dec	-	-

General loan loss provisioning by industry :

	31-Dec-14		31-Dec-13	
In TLKR	O/s	GLLP (0.5 %)	O/s	GLLP (0.5 %)
Agriculture & Fishing	1,450,455	7,252	1,266,516	6,333
Manufacturing	3,024,466	15,122	999,910	5,000
Tourism	200,005	1,000	95,395	477
Transport	-	-	333,160	1,666
Construction	83,314	417	80,982	405
Trading	1,589,736	7,949	3,402,269	17,011
Telecommunications	2,505,176	12,526	2,403,748	12,019
Financial & Business Services	64,680	323	1,792	9
Infrastructure	98,299	491	479,613	2,398
Consumption	64,407	322	68,274	341
	9,080,537	45,403	9,131,659	45,658

Note : The General Loan Loss provisioning (GLLP) reported above has been computed as per 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. The above GLLP is not included in the financial statements (replaced by collective impairment).

(vi) Amount of past due loans and , if available, impaired loans provided separately broken down by significant geographic area including the amount of specific and general loan loss provisions related to each geographical area.

31 December 2014	Sri Lanka	Asia Pacific (excl Sri Lanka)	North & Latin America	Africa & Middle East	Europe	Others	Total
Impaired loans (Western P)	-	-	-	-	-	-	-
Specific LLP (Western P)	-	-	-	-	-	-	-
General LLP (**)	45,403	-	-	-	-	-	45,403

31 December 2013	Sri Lanka	Asia Pacific (excl Sri Lanka)	North & Latin America	Africa & Middle East	Europe	Others	Total
Impaired loans (Western P)	-	-	-	-	-	-	-
Specific LLP (Western P)	-	-	-	-	-	-	-
General LLP (**)	45,658	-	-	-	-	-	45,658

(vii) Reconciliation of changes in the provisions for loan losses/impairment.

As at 31st Dec in LKR	2014	2013
Allowances for impairment		
Special allowance for impairment		
Balance beginning of the year	-	-
Impairment loss/(reversal) for the year	-	-
Balance at the end of the year	-	-
Collective allowance for impairment		
Balance beginning of the year	68,017,703	68,945,451
Impairment loss/(reversal) for the year	(7,059,189)	(927,748)
Balance at the end of the year	60,958,514	68,017,703

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.

- **Trading market risk**: arises primarily through the market-making and trading activities in the various cash and derivative markets.
- **Non-trading market risk**: arises from assets and liabilities that are typically on our books for a longer period of time (i.e. non-consolidated strategic investments, alternative asset investments, sight and saving deposits, and equity compensation), but where the inherent value is still dependent on the movement of financial markets and parameters.

- **Traded default risk:** arises from defaults and rating migrations relating to trading instruments.

Types of market risk

Substantially all of the Bank's businesses are subject to the risk that market prices and rates will move and result in profits or losses. The Bank distinguishes among four types of market risk:

- Interest rate risk including credit spread;
- Equity price risk (where applicable);
- Foreign exchange risk; and
- Commodity price risk (where applicable).

DB encounters market risk in both its trading and non-trading activities, by making markets and taking positions in debt, equity, foreign exchange, other securities and commodities as well as in equivalent derivatives.

Market risk Management Framework

The Bank uses a combination of risk sensitivities, value-at-risk and stress testing metrics to manage market risks and establish limits. Value-at-risk is a common metric used in the management of trading market risks.

The Management Board and Group Risk Committee, supported by Group Market Risk Management, which is part of the independent risk management function, set a Group-wide value-at-risk limit for the market risks in the trading book. Group Market Risk Management sub-allocates this overall limit to the Group Divisions. Below that, limits are allocated to specific business lines and trading portfolio groups and geographical regions. In addition to the Bank's main market risk value-at-risk limits, also stress testing and sensitivity limits are operated.

The Bank's value-at-risk for the trading businesses is based on internal model. In October 1998, the German Banking Supervisory Authority (now the BaFin) approved the internal value-at-risk model for calculating market risk capital for the Group for both the general and specific market risks. Since then the model has been periodically refined and approval has been maintained,

	2014			2013		
In EUR K	LKR	USD	EUR	LKR	USD	EUR
Interest rate risk (@ 200bps parallel shift in yield curve)	(1,177)	(199)	(2)	(781)	67	(1)
Fx Risk (@ 15% devaluation)	(73)	-	(12)	(13)	-	(15)

Market Risk – Quantitative disclosures

(a) Sensitivity analysis of each type of market risk to which DB Colombo is exposed to:

(b) Additional information, if the sensitivity analysis is not representative of DB Colombo's risk exposure: N/A

(c) Other quantitative disclosures

(i) Sensitivity of Assets and Liabilities

Sensitivity of Assets and Liabilities
(Currency - LKR mio)
As at 31 Dec 2014

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														176	176
2	Deposits with CBSL														2,682	2,682
3	Balances due from HO/Affiliates/Branches															-
4	Balances due from Other Banks	-														-
5	Investments	2,443	2,939	3,420	-	1,204			-	952					2	10,961
6	Bills of Exchange and Promissory Notes	-														-
7	Overdrafts	167	167	167	334	464	-	464		464						2,227
8	Loans and Advances	715	372	903	1	17	25	16	6	5	31	43				2,134
9	Non Performing Loans															-
10	Fixed Assets														90	90
11	Net Inter-branch Transactions														219	219
12	Accrued Interest														337	337
13	Other Assets														1,324	1,324
14	Reverse Repos	10,350														10,350
15	FRAs															-
16	Swaps															-
17	Futures															-
18	Options															-
19	FX FWD Contracts- BUY	2,322	1,592	566	1,212											5,691
	Total	15,997	5,070	5,056	1,547	1,686	25	480	6	1,421	31	43	-	-	4,830	36,192
	Liabilities and OBS															-
1	Demand Deposits														4,511	4,511
2	Savings Deposits	216	216	216	432	540	540	540	540	1,079					-	4,317
3	Time Deposits	1,691	5	110	21											1,827
4	Other Deposits	11	3	0												13
5	Balances due to HO/Affiliates/Branches														5	5
6	Balance due to other Banks															-
7	Certificate of Deposits															-
8	Other Borrowings															-
9	Net Inter-branch Transactions														1,660	1,660
10	Bills Payable															-
11	Interest Payable														6	6
12	Provisions (Others)														825	825
13	Capital														3,608	3,608
14	Reserves														2,228	2,228
15	Retained Earnings + Current year Profits				2,155											2,155
16	Subordinate Debts															-
17	Other (Specify)															-
18	Repos															-
19	FRAs															-
20	Futures															-
21	Swaps															-
22	Options															-
	Total	1,917	224	326	2,608	540	540	540	540	1,079	-	-	-	-	12,842	21,154
	Gap	14,080	4,846	4,730	(1,061)	1,146	(515)	(60)	(533)	342	31	43	-	-	(8,012)	15,038

	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
Lines of credit committed to institutions and other borrowers															
Unutilised portion of overdraft, loans and advances	976														976
Letters of credit/guarantees/acceptances															
Repo/Bills rediscounted/Swaps/Forward contracts (LKR against Other currencies)	1,435	7,098	6,763	651											15,948

DEUTSCHE BANK AG – COLOMBO BRANCH
NOTES TO THE FINANCIAL STATEMENTS

Sensitivity of Assets and Liabilities
(Currency - USD mio)
As at 31 Dec 2014

No.	Assets and OBS	Upto 1 month	1 - 3 Months	3 - 6 Months	6 -12 Months	1 - 2 Years	2 -3 Years	3 - 4 Years	4 - 6 Years	5 - 7 Years	7 - 10 years	10 - 15 Years	15 - 20 Years	Over 20 Years	Non Sensitive	Total
1	Cash on Hand														0	0
2	Deposits with CBSL															-
3	Balances due from HO/Affiliates/Branches														0	0
4	Balances due from Other Banks	20														20
5	Investments						20									20
6	Bills of Exchange and Promissory Notes															-
7	Overdrafts	1	1	1	1	2		2		2						7
8	Loans and Advances	22	5													27
9	Non Performing Loans															-
10	Fixed Assets															-
11	Net Inter-branch Transactions															-
12	Accrued Interest															-
13	Other Assets															-
14	Revese Repos															-
15	FRAs															-
16	Swaps															-
17	Futures															-
18	Options															-
19	FX FWD Contracts- BUY	11	54	54	5											123
-	Total	53	53	55	6	2	20	2	-	2	-	-	-	-	0	198
	Liabilities and OBS															
1	Demand Deposits														26	26
2	Savings Deposits															-
3	Time Deposits	2														2
4	Other Deposits	0														0
5	Balances due to HO/Affiliates/Branches		67	18	5											90
6	Balance due to other Banks	1														1
7	Certificate of Deposits															-
8	Other Borrowings	-														-
9	Net Inter-branch Transactions															-
10	Bills Payable															-
11	Interest Payable														-	-
12	Provisions - income tax														1	1
13	Capital														7	7
14	Reserves														2	2
15	Retained Earnings	-			8											8
16	Subordinate Debts															-
17	Other (FCBU(USD) GLLP/PY)	0														0
18	Repos															-
19	FRAs															-
20	Futures															-
21	Swaps															-
21	Options															-
	Total	3	67	18	13	-	-	-	-	-	-	-	-	-	36	138
	Gap	50	(8)	37	(7)	2	20	2	-	2	-	-	-	-	(36)	62

	Upto 1 month	1 - 3 Months	3 - 6 Months	6 -12 Months	1 - 2 Years	2 -3 Years	3 - 4 Years	4 - 6 Years	5 - 7 Years	7 - 10 years	10 - 15 Years	15 - 20 Years	Over 20 Years	Non Sensitive	Total
Lines of credit committed to institutions and other borrowers															
Unutilised portion of overdraft, loans and advances	(2.8)														(2.8)
Letters of credit/guarantees/acceptances	-														-
Repo/Bills rediscounted/Swaps/Forward contracts (USD against Other currencies)	30.5	12.0	8.3	9.0											59.8

Sensitivity of Assets and Liabilities
(Currency - EUR mio)
As at 31 Dec 2014

No	Assets and OBS	Upto 1 month	1 - 3 Months	3 - 6 Months	6 - 12 Months	1 - 2 Years	2 - 3 Years	3 - 4 Years	4 - 6 Years	5 - 7 Years	7 - 10 years	10 - 15 Years	15 - 20 Years	Over 20 Years	Non Sensitive	Total
1	Cash on Hand														0	0
2	Deposits with CBSL															-
3	Balances due from HO/Affiliates/Branches														2	2
4	Balances due from Other Banks	-														-
5	Investments															-
6	Bills of Exchange and Promissory Notes	-														-
7	Overdrafts	-														-
8	Loans and Advances															-
9	Non Performing Loans															-
10	Fixed Assets															-
11	Net Inter-branch Transactions															-
12	Accrued Interest															-
13	Other Assets	1														1
14	Revese Repos															-
15	FRAs															-
16	Swaps															-
17	Futures		-													-
18	FX FWD Buy	11	-	8												19
	Total	12	-	8	-	-	-	-	-	-	-	-	-	-	2	22
	Liabilities and OBS															-
1	Demand Deposits														1	1
2	Savings Deposits															-
3	Time Deposits	0														0
4	Other Deposits															-
5	Balances due to HO/Affiliates/Branches															-
6	Balance due to other Banks															-
7	Certificate of Deposits															-
8	Other Borrowings															-
9	Net Inter-branch Transactions															-
10	Bills Payable															-
11	Interest Payable															-
12	Provisions (Others)															-
13	Capital															-
14	Reserves															-
15	Retained Earnings															-
16	Subordinate Debts						9									9
17	Other (Specify)															-
18	Repos															-
19	FRAs															-
20	Futures															-
21	FX FWD Sell	2		8												10
22	Options															-
	Total	2	-	8	-	-	9	-	-	-	-	-	-	-	1	20
	Gap	10	-	-	-	-	(9)	-	-	-	-	-	-	-	1	2

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

(ii) Statement of foreign exchange position

Foreign Exchange Position
Bank : Deutsche Bank AG- Colombo Branch
As at end of : 31st December, 2014

Mio

Currency	Spot Assets	Spot Liabilities	Net	Forward(a) Assets	Forward(a) Liabilities	Net	Net Open Position	Net Position in other exchange contracts	Overall exposure in respective foreign currency	Overall exposure in Sri Lankan Rupees
(1)	(2)	(3)	(4)=(2)-(3)	(5)	(6)	(7)=(5)-(6)	(8)	(9)	(10)	(11)
US Dollars	76.7	136.1	(59.4)	124.0	59.8	64.2	4.8	-	4.8	627.0
Pound Sterling	0.0	0.0	0.0	-	-	-	0.0	-	0.0	4.1
Euro	2.8	10.1	(7.4)	18.5	10.1	8.5	1.1	-	1.1	171.3
Japanese Yen	1.9	7.8	(5.9)	6.0	-	6.0	0.1	-	0.1	0.1
Indian Rupee			-			-	-	-	-	-
Australian Dollar	0.1	0.0	0.1			-	0.1	-	0.1	11.1
Canadian Dollar	0.0	0.0	0.0			-	0.0	-	0.0	0.1
Other Currencies										
SGD									0.0	2.4
CHF									(0.0)	(2.7)
SEK									0.0	0.4
MYR									0.0	0.6
HKD									0.0	0.1
THB									0.0	0.1
Total Exposure										815
Total capital funds as per the latest audited financial statements (f)										10,193
Total exposure as % of total capital funds as per the latest audited financial statements (should not exceed 30%)										8%

Foreign Exchange Position
Bank : Deutsche Bank AG- Colombo Branch
As at end of : 31st December, 2013

Mio

Currency	Spot Assets	Spot Liabilities	Net	Forward(a) Assets	Forward(a) Liabilities	Net	Net Open Position	Net Position in other exchange contracts	Overall exposure in respective reign currenc	Overall exposure in Sri Lankan Rupees
(1)	(2)	(3)	(4)=(2)-(3)	(5)	(6)	(7)=(5)-(6)	(8)	(9)	(10)	(11)
US Dollars	60.5	87.2	(26.7)	67.6	38.0	29.6	2.9	-	2.9	377.7
Pound Sterli	0.1	0.1	0.0			-	0.0	-	0.0	1.3
Euro	2.2	10.8	(8.7)	14.6	5.0	9.6	1.0	-	1.0	174.9
Japanese Y	0.0	21.8	(21.7)	24.0	-	24.0	2.3	-	2.3	2.8
Indian Rupee			-			-	-	-	-	-
Australian [	0.1	0.0	0.0			-	0.0	-	0.0	5.4
Canadian D	0.0	0.0	0.0			-	0.0	-	0.0	0.2
Other Currencies										
SGD									0.0	0.3
CHF									0.0	1.4
SEK									0.0	0.3
MYR									0.0	0.1
HKD									0.0	0.4
THB									0.0	0.0
Total Exposure										565
Total capital funds as per the latest audited financial statements										11,373
Total exposure as % of total capital funds as per the latest audited financial statements (should not exceed 30%)										5%

Liquidity Risk

Liquidity risk is the risk arising from the Deutsche Bank – Sri Lanka Branch's potential inability to meet all payment obligations when they come due or only being able to meet these obligations at excessive costs. Liquidity risk is managed through the Asset and Liability Committee ("ALCO"). This committee, chaired by Treasury, is responsible for both statutory and prudential liquidity.

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 Sri Lanka ALCO meeting, which takes monthly basis. At the ALCO meeting, DB Colombo Branch's liquidity position, limit utilization, changes in exposure and liquidity policy compliance are presented to the committee.

DB Colombo branch's liquidity risk model is based on three main liquidity risk models. (1) Stress testing and scenario analysis; (2) Funding matrix; (3) Maximum cash outflow (MCO) modeling.

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 management of open liquidity exposures.

A prudent liquidity limit setting process is in place for the maximum cash outflow ("MCO") limits which allows Treasury to monitor and control excessive short-term funding gaps up to an eight week period. The MCO limits are calibrated from local liquidity stress tests and reviewed on a regular basis to reflect changes in the balance sheet profile of the entity.

(a) Other quantitative disclosures

(i) Trends

Ratios:	31-Dec-13	2014			
		Q1	Q2	Q3	Q4
Net loans to total assets	27%	13%	18%	20%	22%
Loans to customer deposits	94%	43%	56%	64%	62%
Liquid assets to short term liabilities	93%	105%	80%	137%	137%
Large liabilities (minus) temporary investments to earning assets (minus) temporary investments	-72%	-205%	-210%	-122%	-59%
Purchased funds to total assets	0%	0%	0%	0%	0%
Commitments to total loans	181%	248%	184%	155%	146%

(ii) Maturity Analysis of Assets and Liabilities

Maturities of Assets and Liabilities (MAL)
(Currency - LKR mio)
As at 31 Dec 2014

No.	Heads of Accounts Item	Upto 1 month	1 - 3 Months	3 - 6 Months	6 - 9 Months	9 - 12 Months	1 - 3 Years	3 - 5 Years	Over 5 Years
A	Inflows								
1	Cash on Hand	176							
2	Deposits with CBSL	362	362	305	249	168	271	271	694
3	Balances due from Head Office, Affiliates and Own branches								
4	Balances due from Other Banks								
5	Investments (Net of provisions)	2,443	2,939	3,420	-	-	1,204		956
6	Bills of Exchange	-							
7	Overdraft	167	167	167	167	167	464	464	464
8	Loans and Advances	393	27	604	0	1	17	25	1,067
9	NPLs								
10	Net Inter-Branch Transactions								
11	Other Assets	1,239	8	11	11	11	9		35
12	Lines of credit committed from institutions								
13	Reverse Repo	10,350							
14	Accrued Interest	147	30	-	46	7	77	16	15
15	Fixed Assets								90
16	Interbranch receivables	219							
17	FX FWD Contracts- BUY	2,322	1,592	566	1,212				
	Total (a)	17,818	5,124	5,074	1,685	354	2,043	776	3,320
B	Outflows								
1	Demand Deposits	902	902	677	451	451			1,128
2	Savings Deposits	216	216	216	216	216	1,079	1,079	1,079
3	Balances due to Head Office/Affiliates/Own Branches	5							
4	Balances due from Other Banks	-							
5	Time and Other Deposits	322	322	322	322				552
6	Certificates of Deposits, Borrowings & Bonds								
7	Net Inter-branch Transactions						1,660		
8	Bills Payable								
9	Interest Payable	6							
10	Provisions other than for loan losses and depreciation in the value of investment portfolio								
11	Other Liabilities	465	175	1	-	-	-	-	183
12	Lines of credit committed to institutions								
13	Unutilized portion of Overdraft, Loans and Advances	73	73	73	73	73	203	203	203
14	Letters of Credit/ Guarantees/Acceptances								
15	Repo/Bills Rediscounted/Swaps/Forward contracts	1,435	7,098	6,763	473	178			
16	Capital & Reserves								5,835
17	Retained Earnings + Current year profits					2,155			
	Total (b)	3,424	8,786	8,052	1,535	3,074	2,943	1,282	8,931
	Gap = (a) - (b)	14,394	(3,662)	(2,978)	149	(2,720)	(900)	(506)	(5,661)
	Cumulative Gap	14,394	10,732	7,754	7,903	5,183	4,284	3,778	(1,883)
	Cumulative Liabilities	3,424	12,210	20,263	21,798	24,871	27,814	29,096	38,077
	Cumulative Gap as a % of Cumulative Liabilities	420%	88%	38%	36%	21%	15%	13%	-5%

DEUTSCHE BANK AG – COLOMBO BRANCH
NOTES TO THE FINANCIAL STATEMENTS

Maturities of Assets and Liabilities (MAL)

(Currency - USD mio)

As at 31 Dec 2014

No.	Heads of Accounts Item	Upto 1 month	1 - 3 Months	3 - 6 Months	6 - 9 Months	9 - 12 Months	1 - 3 Years	3 - 5 Years	Over 5 Years
A	Inflows								
1	Cash on Hand	0							
2	Deposits with CBSL (to be uplifted in Oct)	-							
3	Balances due from Head Office, Affiliates and Own branches	0				-			
4	Balances due from Other Banks	20							
5	Investments (Net of provisions)						20		
6	Bills of Exchange	-							
7	Overdraft	1	1	1	1	1	2	2	2
8	Loans and Advances	8	6						14
9	NPLs								
10	Net Inter-Branch Transactions								
11	Other Assets	-							
12	Lines of credit committed from institutions								
13	Other								
13	FX FWD Contracts- BUY	11	54	54	4	1			
	Total (a)	39	61	55	4	1	22	2	16
B	Outflows								
1	Demand Deposits	5	5	4	3	3			7
2	Savings Deposits								
3	Balances due to Head Office/Affiliates/Own Branches	-	67	18	5	-			
4	Balances due from Other Banks	1	-						
5	Time Deposits	1	-						0
6	Certificates of Deposits, Borrowings & Bonds								
7	Net Inter-branch Transactions								
8	Bills Payable								
9	Interest Payable								
10	Provisions other than for loan losses and depreciation in the value of investment portfolio								
11	Other Liabilities	0	0						0
12	Lines of credit committed to institutions								
13	Unutilized portion of Overdraft, Loans and Advances	(1)	(1)	(0)	(0)	(0)	(0)	(0)	(1)
14	Letters of Credit/ Guarantees/Acceptances								
15	Repo/Bills Rediscounted/Swaps/Forward contracts	30	12	8	9				
16	Capital & Reserves								9
17	Retained Earnings					8			
	Total (b)	37	84	30	17	10	(0)	(0)	15
	Gap = (a) - (b)	2	(24)	24	(12)	(10)	22	2	1
	Cumulative Gap	2	(22)	3	(10)	(20)	2	4	5
	Cumulative Liabilities	37	122	152	168	179	179	178	193
	Cumulative Gap as a % of Cumulative Liabilities	4%	-18%	2%	-6%	-11%	1%	2%	2%

Maturities of Assets and Liabilities (MAL)

(Currency - EUR mio)
As at 31 Dec 2014

No.	Heads of Accounts Item	Upto 1 month	1 - 3 Months	3 - 6 Months	6 - 9 Months	9 - 12 Months	1 - 3 Years	3 - 5 Years	Over 5 Years
A	Inflows								
1	Cash on Hand	0							
2	Deposits with CBSL								
3	Balances due from Head Office, Affiliates and Own branches	2				-			
4	Balances due from Other Banks	-							
5	Investments (Net of provisions)								
6	Bills of Exchange								
7	Overdraft	-							
8	Loans and Advances								
9	NPLs								
10	Net Inter-Branch Transactions								
11	Other Assets	1							
12	Lines of credit committed from institutions								
13	FX FWD Buy	11	-	8					
	Total (a)	13	-	8	-	-	-	-	-
B	Outflows								
1	Demand Deposits	0	0	0	0	0			0
2	Savings Deposits								
3	Balances due to Head Office/Affiliates/Own Branches								
4	Balances due from Other Banks								
5	Time Deposits	0							0
6	Certificates of Deposits, Borrowings & Bonds						9	-	
7	Net Inter-branch Transactions								
8	Bills Payable								
9	Interest Payable								
10	Provisions other than for loan losses and depreciation in the value of investment portfolio								
11	Other Liabilities								
12	Lines of credit committed to institutions								
13	Unutilized portion of Overdraft, Loans and Advances								
14	Letters of Credit/ Guarantees/Acceptances								
15	Repo/Bills Rediscounted/Swaps/Forward contracts	2	-	8					
	Total (b)	2	0	8	0	0	9	-	0
	Gap = (a) - (b)	11	(0)	(0)	(0)	(0)	(9)	-	(0)
	Cumulative Gap	11	10	10	10	10	1	1	1
	Cumulative Liabilities	2	3	11	11	11	20	20	20
	Cumulative Gap as a % of Cumulative Liabilities	453%	395%	94%	92%	90%	7%	7%	5%

Operational Risk

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.

We have categorized operational risks into the following risk types for our 2014 self assessment process:

- **Origination & Execution Risk** is the risk that deficiencies and/or errors in the origination of products/services/transactions, their execution, inappropriate business practices, or contractual obligations will result in losses.
- **Fraud Risk** is the risk of incurring losses as a result of an intentional act or omission by an employee or by a third party involving dishonesty, for personal and/or business gain, to avoid personal and/or business loss, or to conceal improper or unauthorized activity. This includes the falsification or alteration of records and reports, facilitation, breach of trust, intentional omission, misrepresentation, concealment, misleading, and the abuse of one's position.
- **Business Continuity Risk** is the risk of incurring losses resulting from the interruption of normal business activities, i.e. interruptions to our infrastructure as well as to the infrastructure that supports our businesses (including third party vendors) and the communities in which we are located.
- **Regulatory Compliance Risk** is the risk of incurring regulatory sanctions (including restrictions on business activities, fines or enhanced reporting requirements), financial and/or reputational damage arising from our failure to comply with applicable laws, rules and regulations.
- **Information Technology Risk** is the risk that our information technology will lead to quantifiable losses due to inadequate information technology and processing in terms of manageability, exclusivity, integrity, controllability, and continuity.
- **Information Security Risk is** the risk of an event which could result in the compromise of organizational assets, including, but not limited to, unauthorized use, loss, damage, disclosure or modification of organization assets. It includes the risk of cyber threats on the organization.
- **Vendor Risk** arises from adverse events and risk concentrations due to failures in vendor selection, insufficient controls and oversight over a vendor and/or services provided by a vendor, and other impacts to the vendor itself.
- **Fiduciary Service Risk** is the risk to fail to act in the best interest of our clients when advising, investing, accounting for or safeguarding client assets, including the failure to prevent, detect or correct negligence and/or violations of fiduciary responsibilities, and the failure to appropriately address fiduciary conflicts of interests that may arise.
- **Financial Reporting and Recording Risk** is the risk that a mis-reporting or mis-recording in the financial statements results in an operational risk related event and, potentially, an operational risk related loss.
- **Real Estate Risk or Facilities and Infrastructure risk** is the risk of incurring a loss resulting from damage to or the loss-of-use of the bank's Facilities/Infrastructure.

- **Staff Risk** is the risk that shortcomings in processes and procedures related to the employment of internal staff either directly generate a loss or indirectly contribute to the occurrence of events in other risk categories.
- **Tax Compliance Risk** describes operational risk related to the filing of tax returns and other tax related tasks, e.g. failure to file advance tax returns, being subject to a tax audit, or incurring tax payments etc.
- **Transaction Processing Risk** is the risk that deficiencies in transaction processing or in our internal processes or controls result in losses. The risk is caused by human error, IT applications system failure and inadequate process design.

Legal Risk may materialize in any of the above risk types due to the fact that in each type, we may be the subject of a claim or proceedings alleging non-compliance with contractual or other legal or statutory responsibilities; or we may otherwise be subject to losses allegedly deriving from other legal circumstances.

Managing Operational Risk at Deutsche Bank AG, Sri Lanka Branch

Deutsche Bank AG, Colombo Branch manages operational risk according to policies and guidelines set locally or by Group that enable the bank to determine the OR profile in comparison to Deutsche Bank's risk appetite and systematically identify OR themes and concentrations to define appropriate risk mitigating measures and priorities. The most important ones are:

- Principles for Managing Operational Risk – Deutsche Bank Group
- Operational Risk Management (ORM) Events Policy
- Operational Risk Toolset Policy
- Operational Risk Acceptance Policy
- Vendor Risk Management Policy
- Minimum Requirements for Handling and Recording of Complaints - DB Group and
- Divisional and Functional Policies and Key Operating Procedures.

At local level, the Country Chief Operating Officer acts as the Country Operational Risk Officer (CORO) and is responsible for adequate monitoring and reporting to ORM. As part of the country governance, in addition to the mandatory and primary divisional OR management, the CORO must be informed by all local divisions and functions about OR related matters locally enabling her to fulfill her responsibilities.

The Country Flashcard is prepared on a regular basis representing current operational risks in Sri Lanka and to be reviewed and discussed with the regional ORM management. CORO presents the Country Flashcard to local OPCO. The flashcard is built on new operational risk events that have taken place, trend analysis and economic capital over the past quarters and key actions agreed and tracked via dbTrack which is the central tracking system for OR risk and tracking items.

Deutsche Bank AG, Colombo Branch has implemented the risk management processes and systems as being conducted at the Group level. As mentioned above, Deutsche Bank Group has applied an advance model approach (AMA) for operational risk management and implemented the economic capital (EC) to calculate the capital charged while Deutsche Bank AG, Colombo Branch, with the guidance from the Central Bank of Sri Lanka, uses the Basic Indicator Approach (BIA) to calculate the capital.

Capital

Capital structure:

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 31st December 2014 is LKR 9.9 bn comprised as follows:

Core Capital Instruments at historical rates In LKR mio	31st Dec 2014	31st Dec 2013
Assigned capital	4,410	4,410
Statutory Reserves	487	416
Investment Fund Account Reserve	-	925
Retained earnings	3,194	2,932
Special Reserve	1,781	1,781
Total (*)	9,873	10,465

Details of Tier II Capital instruments:

Tier II Capital Instruments (at exchange rates on reporting date) In LKR mio	31st Dec 2014	31st Dec 2013
Subordinated Term Debt (**)	1,384	1,564
(**) Value considered for CAR	554	938

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 has been duly approved by the Bank Supervision Department of the Central Bank of Sri Lanka.

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, favors business portfolios with the highest positive impact on the DB Group's profitability and shareholder value.

Capital Adequacy

Deutsche Bank AG– Sri Lanka Branch differentiates between regulatory and economic capital demand. While regulatory capital demand is based on the calculation of risk-weighted assets according to the requirements set out by the Basel Committee and amended by the Central Bank of Sri Lanka, economic capital demand is based on DB Group's estimate of the risk exposure of the entity based on internal risk models.

The local capital adequacy assessment is part of the ongoing oversight that is performed by the Asset and Liability Committee (ALCO) of Deutsche Bank – Sri Lanka Branch, with ultimate oversight by the local management.

Risk Weighted Assets and Capital requirement

In TLKR		31st Dec 2014	31st Dec 2013
Core capital	Assigned capital	4,410,461	4,410,461
	Reserves	2,267,806	3,107,418
	Retained earnings	3,194,276	2,932,397
Tier I adjustments (Def Tax & I/E balances)		(22,054)	(15,630)
Tier I adjusted capital		9,850,489	10,434,646
Tier II capital	Gen prov	-	-
	Subdebt	553,559	938,522
Total Capital		10,404,048	11,373,168
Risk-weighted amount for credit risk		12,949,991	12,003,920
Risk-weighted amount for market risk		1,912,140	2,068,000
Risk-weighted amount for operational risk		6,563,903	5,159,241
Total risk-weighted amount		21,426,034	19,231,161
Ratios:			
Min required	Tier I ratio - 5 %	45.97%	54.26%
	Total Capital Ratio - 10 %	48.56%	59.14%

46. Accounting Classification and Fair Values of Financial Instruments

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

46.1 Classification of Financial Instruments

As at 31st December 2014	Loans and Receivables Rs.	Held for Trading Rs.	Available for Sale Rs.	Other Amortised Cost Rs.	Total Carrying Amount Rs.
Financial Assets					
Cash and Cash Equivalents	2,935,395,263	-	-	-	2,935,395,263
Balances with Central Banks	13,032,443,249	-	-	-	13,032,443,249
Derivative Financial Instruments	-	123,536,106	-	-	123,536,106
Financial Investments Held for Trading	-	7,329,046,472	-	-	7,329,046,472
Loans and Receivables to Other Customers	9,019,578,137	-	-	-	9,019,578,137
Financial Investments – Available-for-sale	-	-	6,383,941,353	-	6,383,941,353
Group Balance Receivable	516,640,827	-	-	-	516,640,827
Other Assets	1,620,479,062	-	-	-	1,620,479,062
Total Financial Assets	**27,124,536,538**	**7,452,582,578**	**6,383,941,353**	-	**40,961,060,469**
Financial Liabilities					
Derivative Financial Instruments	-	116,674,891	-	-	116,674,891
Other Borrowings	-	350,300,000	-	-	350,300,000
Due to Other Customers	-	-	-	14,666,992,198	14,666,992,198
Subordinated Term Debt	-	-	-	1,387,742,213	1,387,742,213
Group Balances Payable	-	-	-	13,621,404,297	13,621,404,297
Other Liabilities	-	-	-	355,316,386	355,316,386
Total Financial Liabilities	-	**466,974,891**	-	**30,031,455,094**	**30,498,429,985**

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

46.1 Classification of Financial Instruments (cont.)

As at 31st December 2013	Loans and Receivables Rs.	Held for Trading Rs.	Available for Sale Rs.	Other Amortised Cost Rs.	Total Carrying Amount Rs.
Financial Assets					
Cash and Cash Equivalents	297,137,457	-	-	-	297,137,457
Balances with Central Banks	201,120,880	-	-	-	201,120,880
Placements with Banks	916,300,785	-	-	-	916,300,785
Derivative Financial Instruments	-	86,377,891	-	-	86,377,891
Financial Investments Held for Trading	-	14,541,748,959	-	-	14,541,748,959
Loans and Receivables to Other Customers	9,063,641,022	-	-	-	9,063,641,022
Financial Investments – Available-for-sale	-	-	5,971,286,516	-	5,971,286,516
Group Balance Receivable	561,019,324	-	-	-	561,019,324
Other Assets	1,355,867,246	-	-	-	1,355,867,246
Total Financial Assets	**12,395,086,714**	**14,628,126,850**	**5,971,286,516**	-	**32,994,500,080**
Financial Liabilities					
Due to Banks	-	-	-	2,669,702,598	2,669,702,598
Derivative Financial Instruments	-	161,890,976	-	-	161,890,976
Other Borrowings	-	232,900,000	-	-	232,900,000
Due to Other Customers	-	-	-	9,732,350,966	9,732,350,966
Subordinated Term Debt	-	-	-	1,564,203,295	1,564,203,295
Group Balances Payable	-	-	-	7,470,405,817	7,470,405,817
Other Liabilities	-	-	-	279,144,920	279,144,920
Total Financial Liabilities	-	**394,790,976**	-	**21,715,807,596**	**22,110,598,572**

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

46.2 Fair Value of Financial Instruments

46.2.1 Fair Value Hierarchy

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

As at 31st December 2014	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Financial Assets				
Derivative Financial Instruments	123,536,106	-	-	123,536,106
Financial Investments Held for Trading				
Treasury Bills	1,735,604,000	-	-	1,735,604,000
Treasury Bonds	5,593,442,472	-	-	5,593,442,472
Financial Investments – Available-for-sale				
Treasury Bills & Bonds	6,382,341,353	-	-	6,382,341,353
Equity Securities	-	-	1,600,000	1,600,000
Financial Assets	**13,834,923,931**	-	**1,600,000**	**13,836,523,931**
Financial Liabilities				
Derivative Financial Instruments	116,674,891	-	-	116,674,891
Other Borrowings	350,300,000	-	-	350,300,000
Financial Liabilities	**466,974,891**	-	-	**466,974,891**

As at 31st December 2013	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Financial Assets				
Derivative Financial Instruments	86,377,891	-	-	86,377,891
Financial Investments Held for Trading				
Treasury Bills	11,389,146,446	-	-	11,389,146,446
Treasury Bonds	3,152,602,513	-	-	3,152,602,513
Financial Investments – Available-for-sale				
Treasury Bills & Bonds	5,969,686,516	-	-	5,969,686,516
Equity Securities	-	-	1,600,000	1,600,000
Financial Assets	**20,597,813,366**	-	**1,600,000**	**20,599,413,366**
Financial Liabilities				
Derivative Financial Instruments	161,890,976	-	-	161,890,976
Other Borrowings	232,900,000	-	-	232,900,000
Financial Liabilities	**394,790,976**	-	-	**394,790,976**

46.2.2 Assets for Which Fair Value approximates Carrying Value

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