

Deutsche Bank AG, Pakistan Branches
(Incorporated in the Federal Republic of Germany with Limited Liability)
Statement of Financial Position
As at 31 December 2014

	Note	2014 (Rupees in '000)	2013
ASSETS			
Cash and balances with treasury banks	7	5,523,757	6,193,227
Balances with other banks	8	492,331	208,293
Lendings to financial institutions	9	6,312,559	9,757,121
Investments	10	842,929	5,428,718
Advances	11	6,603,070	4,265,335
Operating fixed assets	12	304,984	314,108
Deferred tax assets - net	13	61,130	74,492
Other assets	14	1,566,805	1,562,707
		21,707,565	27,804,001
LIABILITIES			
Bills payable	15	629,787	324,717
Borrowings from financial institutions	16	860,407	4,004,649
Deposits and other accounts	17	12,663,537	15,849,131
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities		-	-
Other liabilities	18	2,390,873	2,338,895
		16,544,604	22,517,392
NET ASSETS		5,162,961	5,286,609
REPRESENTED BY			
Head office capital account	19	3,914,059	4,649,699
Reserves		-	-
Un-remitted profit		1,232,065	638,687
		5,146,124	5,288,386
Surplus/(deficit) on revaluation of assets - net of tax	20	16,837	(1,777)
		5,162,961	5,286,609
Contingencies and commitments	21		

The annexed notes 1 to 41 form an integral part of these financial statements.

Ahmer Hasan
Managing Director /
Chief Country Officer
Pakistan

Mahmood A. Qureshi
Chief Operating Officer
& Chief Financial Officer
Pakistan

Deutsche Bank AG, Pakistan Branches
(Incorporated in the Federal Republic of Germany with Limited Liability)
Profit and Loss Account
For the year ended 31 December 2014

	Note	2014 (Rupees in '000)	2013
Mark-up / return / interest earned	23	1,541,981	1,644,741
Mark-up / return / interest expensed	24	<u>(725,537)</u>	<u>(719,355)</u>
Net mark-up / interest income		816,444	925,386
Provision against non-performing advances	11.3	<u>(38,462)</u>	<u>(2,659)</u>
Provision against off-balance sheet obligations	18.1	<u>(5,042)</u>	<u>(4,691)</u>
Provision for diminution in the value of investments		-	-
Bad debts written off directly		-	-
		<u>(43,504)</u>	<u>(7,350)</u>
Net mark-up / interest income after provisions		772,940	918,036
NON MARK-UP / NON INTEREST INCOME			
Fee, commission and brokerage income		<u>480,289</u>	360,371
Dividend income		-	-
Income from dealing in foreign currencies and derivatives	25	<u>605,572</u>	327,351
Gain on sale of Government securities		<u>29,265</u>	16,325
Unrealized gain / (loss) on revaluation of investments classified as held for trading		-	-
Other income	26	<u>19,314</u>	12,437
Total non mark-up / non interest income		<u>1,134,440</u>	716,484
		1,907,380	1,634,520
NON MARK-UP / NON INTEREST EXPENSES			
Administrative expenses	27	<u>(996,823)</u>	<u>(1,144,078)</u>
Reversal against other assets	14.3	<u>610</u>	-
Other charges	28	<u>(1,252)</u>	<u>(165)</u>
Total non mark-up / non interest expenses		<u>(997,465)</u>	<u>(1,144,243)</u>
		909,915	490,277
Extra-ordinary / unusual items		-	-
PROFIT BEFORE TAXATION		909,915	490,277
Taxation - current		<u>(320,520)</u>	<u>(181,240)</u>
- prior years		-	-
- deferred		<u>(776)</u>	<u>8,726</u>
	29	<u>(321,296)</u>	<u>(172,514)</u>
PROFIT AFTER TAXATION		588,619	317,763

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Deutsche Bank AG, Pakistan Branches
(Incorporated in the Federal Republic of Germany with Limited Liability)
Statement of Comprehensive Income
For the year ended 31 December 2014

	2014	2013
	(Rupees in '000)	
Profit for the year	588,619	317,763
Other comprehensive income:		
<i>Items that will not be reclassified to profit or loss:</i>		
Actuarial Gain / (loss) on defined benefit plans	7,321	12,333
Related deferred tax	(2,562)	(4,317)
	4,759	8,016
Exchange adjustment on account of revaluation of capital	(735,640)	534,115
Total comprehensive income for the year	(142,262)	859,894
<i>Items that may be reclassified to profit or loss in subsequent periods:</i>		
Surplus / (deficit) arising on revaluation of available for sale securities	25,903	(2,734)
Related deferred tax	(9,066)	957
	16,837	(1,777)
Total comprehensive income during the year	(125,425)	858,117

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Deutsche Bank AG, Pakistan Branches

(Incorporated in the Federal Republic of Germany with Limited Liability)

Statement of Changes in Equity

For the year ended 31 December 2014

	Head office capital account	Un-remitted profit	Total
	----- (Rupees in '000) -----		
Balance as at 01 January 2013	4,115,584	1,855,437	5,971,021
<i>Transactions with owners, recorded directly in equity:</i>			
Remittance made to head office	-	(1,542,529)	(1,542,529)
<i>Total comprehensive income for the year:</i>			
Profit for the year	-	317,763	317,763
<i>Other comprehensive income:</i>			
Actuarial loss on defined benefit plan - net of tax	-	8,016	8,016
Exchange adjustment on revaluation of head office capital account	534,115	-	534,115
	534,115	325,779	859,894
Balance as at 31 December 2013	4,649,699	638,687	5,288,386
Changes in equity 2014:			
<i>Transactions with owners, recorded directly in equity:</i>			
Remittance made to head office	-	-	-
<i>Comprehensive income for the year:</i>			
Profit for the year	-	588,619	588,619
<i>Other comprehensive income:</i>			
Actuarial gain on defined benefit plan - net of tax	-	4,759	4,759
Exchange adjustment on revaluation of head office capital account	(735,640)	-	(735,640)
	(735,640)	593,378	(142,262)
Balance as at 31 December 2014	3,914,059	1,232,065	5,146,124

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Deutsche Bank AG, Pakistan Branches
(Incorporated in the Federal Republic of Germany with Limited Liability)
Cash Flow Statement
For the year ended 31 December 2014

	Note	2014 (Rupees in '000)	2013
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation		909,915	490,277
Adjustments for:			
Depreciation		63,844	63,977
Provision against non-performing advances		38,462	2,659
Provision against off-balance sheet obligation		5,042	4,691
(Reversal) against other assets		(610)	-
Gain on sale of Government securities		(29,265)	(16,325)
Charge for defined benefit plan		22,270	22,220
(Gain) on sale of operating fixed assets		(2,610)	(6,613)
Bad debts written off directly		-	-
		<u>97,133</u>	<u>70,609</u>
		1,007,048	560,886
Decrease / (increase) in operating assets			
Lendings to financial institutions		3,444,562	(2,342,729)
Advances		(2,376,197)	(288,480)
Others assets (excluding advance taxation)		(3,547)	122,678
		<u>1,064,818</u>	<u>(2,508,531)</u>
(Decrease) / increase in operating liabilities			
Bills payable		305,070	27,355
Borrowings from financial institutions		(3,144,242)	3,686,766
Deposits and other accounts		(3,185,594)	(2,505,102)
Other liabilities		50,663	(1,675,722)
		<u>(5,974,103)</u>	<u>(466,703)</u>
		(3,902,237)	(2,414,348)
Contributions made to defined benefit plan		(18,676)	(17,584)
Income tax paid		(320,461)	(174,899)
Net cash used in operating activities		<u>(4,241,374)</u>	<u>(2,606,831)</u>
CASH FLOW FROM INVESTING ACTIVITIES			
Net investments in available-for-sale investments		4,643,691	2,346,880
Net investments in held-to-maturity securities		-	-
Dividend income		-	-
Purchase of operating fixed assets		(62,102)	(32,145)
Sale proceeds on disposal of operating fixed assets		9,993	12,628
Net cash generated from investing activities		<u>4,591,582</u>	<u>2,327,363</u>
CASH FLOW FROM FINANCING ACTIVITIES			
Remittance made to head office		-	(1,542,529)
Net cash used in financing activities		<u>-</u>	<u>(1,542,529)</u>
Effects of exchange rate changes on cash and cash equivalents		(735,640)	534,115
(Decrease) / increase in cash and cash equivalents		<u>(385,432)</u>	<u>(1,287,882)</u>
Cash and cash equivalents at beginning of the year		6,401,520	7,689,402
Cash and cash equivalents at end of the year	30	<u>6,016,088</u>	<u>6,401,520</u>

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Deutsche Bank AG, Pakistan Branches

(Incorporated in the Federal Republic of Germany with Limited Liability)

Notes to the Financial Statements

For the year ended 31 December 2014

1. STATUS AND NATURE OF BUSINESS

Deutsche Bank AG is a foreign banking company incorporated in the Federal Republic of Germany with limited liability. Its operations in Pakistan are carried out through three branches located at Karachi, Lahore and Islamabad (The Bank). The Bank is engaged in banking business as described in the Banking Companies Ordinance, 1962.

2. BASIS OF PRESENTATION

In accordance with the directives of the Federal Government regarding shifting of the banking system to the Islamic modes, the State Bank of Pakistan (SBP) has issued various circulars from time to time. Permissible forms of trade related modes of financing includes purchase of goods by the Bank from its customers and immediate resale to them at appropriate mark-up in price on deferred payment basis. The purchases and sales arising under these arrangements are not reflected in these financial statements as such but are restricted to the amount of facility actually utilized and the appropriate portion of mark-up thereon.

3. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984 and the Banking Companies Ordinance, 1962, and the directives issued by SBP. In case the requirements differ, the provisions of and directives issued under the Companies Ordinance, 1984, and the Banking Companies Ordinance, 1962, and the directives issued by the State Bank of Pakistan shall prevail.

The State Bank of Pakistan (SBP) vide BSD Circular No. 10 dated 26 August 2002 has deferred the applicability of International Accounting Standard 39, Financial Instruments: Recognition and Measurement (IAS 39) and International Accounting Standard 40, Investment Property (IAS 40). Further, according to a notification of the Securities and Exchange Commission of Pakistan (SECP) dated 28 April 2008, International Financial Reporting Standard 7, Financial Instruments: Disclosures (IFRS 7) has not been made applicable for banks. Accordingly, the requirements of these standards and their relevant interpretations (issued by the Standards Interpretation Committee - SICs, and the International Financial Reporting Interpretations Committee - IFRICs) have not been considered in the preparation of these financial statements. However, the investments have been classified in accordance with the categories prescribed by SBP through various circulars.

4. CREDIT RATING

The credit rating done by Standard & Poor in February 2015 for Deutsche Bank AG is A for the long term and A-1 for the short term, rating done by Moody's in January 2015 is A3 for the long term and P-2 for the short term and rating done by Fitch in January 2015 is A+ for the long term and F1+ for the short term.

5. BASIS OF MEASUREMENT

- 5.1** These financial statements have been prepared under the historical cost convention, except that available-for-sale investments and derivative financial instruments have been marked to market and are carried at fair value, staff retirement benefits (pension) which are stated at present value and certain financial assets that are stated net of provisions.
- 5.2** The preparation of financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that effect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described in the following:

- Investments (Note 6.5)
- Advances (Note 6.4)
- Taxation (Note 6.3)
- Derivative financial instruments (Note 6.9)
- Defined benefit plan (Note 6.2)
- Operating fixed assets and depreciation (Note 6.7)

These financial statements are presented in Pak rupees (PKR) which is the Bank's functional currency.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and are enumerated as follows:

6.1 Cash and cash equivalents

Cash and cash equivalents comprise cash and balances with treasury banks and balances with other banks.

6.2 Staff retirement benefits

Defined contribution plans

The Bank operates approved provident fund and gratuity fund scheme for all of its permanent employees in respect of which contributions are made to discharge liability under the respective rules of the schemes.

Defined benefit plan

The Bank also operates a funded pension scheme for all of their permanent employees. The costs are determined based on actuarial valuation carried out using the Projected Unit Credit Method. All actuarial gains and losses are recognized outside the profit and loss account in the statement of comprehensive income.

6.3 Taxation

Current tax

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the statement of financial position date and any adjustment to tax payable in respect of previous years.

Deferred tax

Deferred tax is provided using the balance sheet liability method on all material 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 substantively enacted at the statement of financial position date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available and the credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

6.4 Advances

Advances are stated net of specific and general provision against loan losses. Specific provision is made for non-performing advances to reduce book value of such advances to their expected realizable value in compliance with the Prudential Regulations of SBP. The Bank also establishes a general allowance for loan losses to encompass the loss inherent in performing loans based on historical loss experience and country risk. Advances are written-off when there are no realistic prospects of recovery.

6.5 Investments

In accordance with the requirements of BSD Circular No. 10 dated 13 July 2004 the investments are classified as follows:

Held to maturity

These securities are with fixed and determinable payments and fixed maturity which are acquired with the intention and ability to hold them up to maturity. These are carried at amortized cost.

Held for trading

These are securities, which are either acquired for generating profit from short-term fluctuation in market prices, interest rate movements, dealers margin or are securities included in a portfolio in which a pattern of short-term profit making existed.

Available-for-sale

The securities which are not held for trading and held-to-maturity are classified as available-for-sale (AFS).

The Bank designates the classification of securities at the time of acquisition.

All purchase and sale of investments that require delivery within the time frame established by regulation or market convention are recognized at the trade date, which is the date the bank commits to purchase or sell the investments.

Trading securities are initially recognized at fair value which also includes the transaction cost associated with the investment and are subsequently carried at their market values and related realized and unrealized gains and losses are included in trading revenues.

AFS securities are initially recognized at fair value which also includes the transaction cost associated with the investment and are subsequently valued at market rates and the resulting surplus / (deficit) is taken to "Surplus / (Deficit) on Revaluation of Securities" account and is shown below the head office equity in the statement of financial position.

The market values of securities are determined by reference to ready quotes as available on Reuters Page (PKRV) or Stock Exchange.

6.6 Repurchase agreements

The Bank enters into purchase / (sale) of investments under agreements to resell / (repurchase) investments at a certain date in the future at a fixed price. Investments purchased subject to commitment to resell them at the future dates are not recognized. The amounts paid are recognized in lendings to financial institutions. The receivables are shown as collateralized by the underlying security. Investments sold under repurchase agreements continue to be recognized in the statement of financial position and are measured in accordance with the accounting policy for investments. The proceeds from the sale of the investments are reported in borrowings from financial institutions.

The difference between the purchase / (sale) and resale / (repurchase) consideration is recognized on a time proportion basis over the period of the transaction and is included in mark-up / return / interest earned or expensed.

6.7 Operating fixed assets

Owned

Operating fixed assets other than capital work-in-progress, are stated at cost less accumulated depreciation and impairment losses (if any). Capital work-in-progress is stated at cost.

Subsequent costs are included in the assets carrying amounts or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repair and maintenances are charged to profit and loss account.

Depreciation on fixed assets is charged to income applying the straight-line method from the date the assets are available for use. Gain or loss on disposal is taken to income currently.

6.8 Revenue recognition

Mark-up income and expenses are recognized on a time proportion basis taking into account effective yield on the instrument, except in case of advances classified under the Prudential Regulations issued by SBP on which mark-up is recognized on receipt basis. Commission on letters of credit is recognized on receipt basis, whereas guarantee commission is recorded on accrual basis.

6.9 Derivative financial instruments

Derivative financial instruments are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently re measured at fair value. All derivative financial instruments are carried as assets when fair value is positive and liabilities when fair value is negative. Any change in the fair value is taken to the profit and loss account.

6.10 Foreign currencies

Foreign currency transactions are translated into rupees at exchange rates prevailing on the date of transaction. Monetary assets and liabilities in foreign currencies are translated into rupees at the rate of exchange prevailing at the statement of financial position date. Outstanding forward foreign exchange contracts are valued at the forward rates applicable to their respective maturities. Commitments for outstanding forward foreign exchange contracts are disclosed in financial statements at contracted rates with the fair value adjustment disclosed in other assets / other liabilities, as the case may be.

Contingent liabilities / commitments for letter of credit and letter of guarantee denominated in foreign currencies are expressed in Rupee terms at the exchange rates prevailing at the statement of financial position date.

Exchange gains and losses are included in income, except for exchange gain / loss on foreign currency capital account, which is recognized as the appreciation / diminution of the Head Office capital account.

6.11 Impairment

The carrying amount of assets other than deferred tax assets, are reviewed at each statement of financial position date to determine whether there is any indication of impairment of any asset or group of assets. If such indication exists, the recoverable amount of the asset is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit and loss account.

6.12 Off-setting

Financial assets and financial liabilities are only off-set and the net amount is reported in the financial statements when there is a legally enforceable right to offset the recognized amount and the Bank intends either to settle on a net basis, or to realize the assets and to settle the liabilities simultaneously. Income and expense items of such assets and liabilities are also off-set and the net amount is reported in the financial statements.

6.13 Provisions

Provisions are recognized when the Bank has a legal or constructive obligation as a result of past events, if it is probable that an outflow of resources will be required to settle obligation and a reliable estimate of amount can be made. Provisions are reviewed at each statement of financial position date and are adjusted to reflect the current best estimate.

7. CASH AND BALANCES WITH TREASURY BANKS	2014	2013
	(Rupees in '000)	
<i>In hand:</i>		
Local currency	31,724	39,349
Foreign currency	34,246	33,697
<i>With State Bank of Pakistan in:</i>		
Local currency current account	7.1 773,647	1,069,459
Foreign currency deposit account		
Cash reserve account	7.2 94,053	98,584
Special cash reserve account	7.3 280,850	294,382
Local US Dollar collection account	7.4 395,178	8,057
Foreign currency capital account	19 3,914,059	4,649,699
<i>With National Bank of Pakistan in:</i>		
Local currency current account	-	-
	<u>5,523,757</u>	<u>6,193,227</u>

- 7.1 This represents current account maintained with SBP under the requirements of section 22 (Cash Reserve Requirement) of the Banking Companies Ordinance, 1962.
- 7.2 This represents statutory cash reserve in the current account maintained with SBP under the requirements of SBP.
- 7.3 This represents statutory cash reserve maintained against foreign currency deposits mobilized under FE 25 Circular issued by the SBP at Nil return (2013: Nil).
- 7.4 This represents US Dollar settlement account opened with the SBP in accordance with FE Circular No. 2.

8. BALANCES WITH OTHER BANKS

<i>In Pakistan</i>		
Current account	5,516	170,067
<i>Outside Pakistan</i>		
Current account		
- Inter branch	30,193	37,982
- Others	8.1 456,622	244
	<u>492,331</u>	<u>208,293</u>

- 8.1 This includes balance with a subsidiary of Deutsche Bank, AG. Rs. 455.355 million (2013: Rs. Nil).

9. LENDINGS TO FINANCIAL INSTITUTIONS

Repurchase agreement lendings (Reverse Repo)	9.1 6,312,559	9,757,121
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- 9.1 Reverse repo transactions have been made with various commercial banks at rates ranging from 9.50% to 9.66% p.a (2013: 9.15% to 10.50% p.a) and mature within a month. The market value of these securities at 31 December 2014 amounted to Rs. 6,644 million (2013: Rs. 9,889 million).

9.2 Particulars of Lendings

In local currency	<u>6,312,559</u>	<u>9,757,121</u>
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9.3 Securities held as collateral against lendings to financial institutions

	2014			2013		
	Held by Bank	Further given as collateral	Total	Held by Bank	Further given as collateral	Total
------(Rupees in '000)-----						
Market Treasury Bills	<u>6,312,559</u>	<u>-</u>	<u>6,312,559</u>	9,757,121	-	9,757,121

10. INVESTMENTS	2014			2013		
	Held by Bank	Given as collateral	Total	Held by Bank	Given as collateral	Total
------(Rupees in '000)-----						

10.1 Investments by type

Available-for-sale securities

Market Treasury Bills	10.3	4,216	-	4,216	5,431,452	-	5,431,452
Pakistan Investment Bonds	10.4	812,810	-	812,810	-	-	-
Investments at cost		817,026	-	817,026	5,431,452	-	5,431,452
Surplus/(Deficit) on revaluation of available-for-sale securities	20	25,903	-	25,903	(2,734)	-	(2,734)
Total investments at market value	10.2	842,929	-	842,929	5,428,718	-	5,428,718

10.2 Investments by segment

Federal Government securities

	2014 (Rupees in '000)	2013
Market Treasury Bills	4,216	5,431,452
Pakistan Investment Bonds	812,810	-
Total investments	817,026	5,431,452
Surplus/(Deficit) on revaluation of available-for-sale securities	25,903	(2,734)
Total investments at market value	842,929	5,428,718

10.3 The Market Treasury Bills carry a rate ranging from 9.10% p.a to 9.87% p.a (2013: 9.39% to 10.40% p.a) and having maturity within two months

10.4 The Pakistan Investment Bonds carry a rate of 12.00% p.a (2013: Nil) and having maturity within 10 years.

11. ADVANCES

Loans, cash credits, running finances, etc. - in Pakistan		5,738,453	3,852,123
Bills discounted and purchased (excluding treasury bills)			
Payable in Pakistan		1,229,796	739,929
Payable outside Pakistan		65,626	65,626
		1,295,422	805,555
Advances - gross		7,033,875	4,657,678
Provision for non-performing advances	11.3	(430,805)	(392,343)
Advances - net of provision		6,603,070	4,265,335

11.1 Particulars of advances - gross

	2014	2013
	(Rupees in '000)	
In local currency	6,968,250	4,592,052
In foreign currencies	<u>65,626</u>	<u>65,626</u>
	<u>7,033,876</u>	<u>4,657,678</u>
Short term (for up to one year)	6,362,280	4,426,985
Long term (for over one year)	<u>671,596</u>	<u>230,693</u>
	<u>7,033,876</u>	<u>4,657,678</u>

11.2 Advances include Rs. 347.570 million (2013: Rs. 357.570 million) which have been placed under non-performing status as detailed below:

	2014			2013		
	Classified advances domestic	Provision required	Provision held	Classified advances domestic	Provision required	Provision held
	----- (Rupees in '000) -----					
Category of Classification						
Substandard	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-
Loss	<u>347,570</u>	<u>347,570</u>	<u>347,570</u>	<u>357,570</u>	<u>357,570</u>	<u>357,570</u>
	<u>347,570</u>	<u>347,570</u>	<u>347,570</u>	<u>357,570</u>	<u>357,570</u>	<u>357,570</u>

11.3 Particulars of provision against non-performing advances - in local currency

	2014			2013		
	Specific	General	Total	Specific	General	Total
	----- (Rupees in '000) -----					
Opening balance	357,570	34,773	392,343	357,570	32,114	389,684
Charge for the year	-	48,462	48,462	-	2,659	2,659
Reversals / recoveries	<u>(10,000)</u>	-	<u>(10,000)</u>	-	-	-
	<u>(10,000)</u>	48,462	38,462	-	2,659	2,659
Closing balance	<u>347,570</u>	<u>83,235</u>	<u>430,805</u>	<u>357,570</u>	<u>34,773</u>	<u>392,343</u>

11.4 General provision represents amount recognized in line with the instructions received from the head office.**11.5 Particulars of loans and advances to executives and officers**

Debts due by executives or officers of the Bank or any of them either severally or jointly with any other persons.

	2014	2013
	(Rupees in '000)	
Balance at beginning of year	235,948	225,796
Loans granted during the year	74,733	74,765
Repayments	<u>(66,123)</u>	<u>(64,613)</u>
Balance at end of year	<u>244,558</u>	<u>235,948</u>

11.5.1 This represents loans given by the Bank to its executives and officers as per the terms of their employment.**12. OPERATING FIXED ASSETS**

Capital work-in-progress	12.1	10,056	0
Property and equipment	12.2	<u>294,928</u>	<u>314,108</u>
		<u>304,984</u>	<u>314,108</u>

12.1 Capital work-in-progress

Civil works	-	-
Advance to suppliers and contractors	-	-
Advance against purchase of vehicle	10,056	-
Consultancy fee and other charges	-	-
	<u>10,056</u>	<u>0</u>

12.2 Property and equipments

2014

	COST			DEPRECIATION						Rate of depreciation %
	Balance at 1 January 2014	Additions	Disposal	Balance at 31 December 2014	Balance at 1 January 2014	Charge for the year	Disposal	Balance at 31 December 2014	Book value at 31 December 2014	
----- (Rupees in '000) -----										
Owned										
Improvements on lease hold buildings	268,685	4,880	-	273,565	61,464	25,238	-	86,702	186,863	10-20
Furniture and fixtures	12,437	-	-	12,437	6,504	1,557	-	8,061	4,376	10-33
Electrical, office and computer equipments	124,647	16,846	(4,387)	137,106	79,731	16,877	(3,259)	93,349	43,757	20-50
Vehicles	98,765	30,320	(21,631)	107,454	42,727	20,172	(15,377)	47,522	59,932	20
	504,534	52,046	(26,018)	530,562	190,426	63,844	(18,636)	235,634	294,928	

2013

	COST			DEPRECIATION						Rate of depreciation %
	Balance at 1 January 2013	Additions	Disposal	Balance at 31 December 2013	Balance at 1 January 2013	Charge for the year	Disposal	Balance at 31 December 2013	Book value at 31 December 2013	
----- (Rupees in '000) -----										
Owned										
Improvements on lease hold buildings	212,326	56,420	(61)	268,685	35,633	25,889	(58)	61,464	207,221	10-20
Furniture and fixtures	15,457	749	(3,769)	12,437	7,910	2,111	(3,517)	6,504	5,933	10-33
Electrical, office and computer equipments	112,434	19,255	(7,042)	124,647	70,165	16,576	(7,010)	79,731	44,916	20-50
Vehicles	96,821	25,837	(23,893)	98,765	41,491	19,401	(18,165)	42,727	56,038	20
	437,038	102,261	(34,765)	504,534	155,199	63,977	(28,750)	190,426	314,108	

12.2.1 Included in cost of property and equipment are fully depreciated items, still in use, having cost of Rs. 92.294 million (2013: Rs.68.680 million).

12.2.2 Disposal include items having cost of Rs. 3.386 million (2013: Rs. 0.311 million) which have been written off during the year.

12.2.3 Details of disposal of assets whose original cost or the book value exceeds Rs. 1 million or Rs. 250,000 whichever is less and assets disposed to the Chief Country Officer or to other executives or to any related party, irrespective of the value, are given below:

Description	Cost	Book value	Sale proceeds	Mode of disposal	Purchaser	Particulars / address
	------(Rupees in '000)-----					
Laptop,mouse,keyboard,dock	114	-	11	Bank Policy	Fawad Qasim	Employee
Laptop,mouse,keyboard,dock	161	-	16	Bank Policy	Rashid M Alam	Employee
Equipments	2,908	1,097	-	Bank Policy	Faizan Mitha	Ex-Employee
Honda City	1,358	204	543	Bank Policy	Kashif Tanveer	Employee
Honda Civic	1,842	368	737	Bank Policy	Naveed Asghar	Employee
Honda Civic	1,482	272	593	Bank Policy	Aslam Muhammad	Employee
Honda Civic	1,849	370	740	Bank Policy	Nauman Aqeel	Employee
Honda Civic	1,849	339	740	Bank Policy	Naveed aslam	Ex-Employee
Honda Civic	1,879	376	752	Bank Policy	Javed Alim	Employee
Honda Accord	5,866	1,075	2,346	Bank Policy	Hammad Izz-Hamid	Employee
Honda Civic	1,502	576	751	Bank Policy	Fawad Qasim	Employee
Toyota Corolla Gli	1,673	1,004	1,037	Bank Policy	Rizwan Alam	Ex-Employee
Honda Civic	2,332	1,671	1,702	Bank Policy	Ayaz Sheikh	Ex-Employee
	<u>24,815</u>	<u>7,352</u>	<u>9,968</u>			

13. DEFERRED TAX ASSETS

The following are deferred tax assets / (liabilities) recognized and movement thereon:

	2014			Closing balance
	Opening balance	(Charge) / reversal to profit and loss account	Debit / (credit) to other comprehensive income	
----- (Rupees in '000) -----				
Surplus/Deficit on revaluation of				
Government securities	957		(10,023)	(9,066)
Actuarial gains and losses	16,103		(2,562)	13,541
Provision for advances and off balance sheet obligation	90,699	(5,893)		84,806
Difference between accounting book value of operating fixed assets and its tax base	(33,267)	5,116		(28,151)
	<u>74,492</u>	<u>(777)</u>	<u>(12,585)</u>	<u>61,130</u>

	2013			Closing balance
	Opening balance	(Charge) / reversal to profit and loss account	Debit / (credit) to other comprehensive income	
----- (Rupees in '000) -----				
Deficit on revaluation of				
Government securities	5,145	-	(4,188)	957
Actuarial gains and losses	20,420	-	(4,317)	16,103
Provision for advances and off balance sheet obligation	90,538	161	-	90,699
Difference between accounting book value of operating fixed assets and its tax base	(41,832)	8,565	-	(33,267)
	<u>74,271</u>	<u>8,726</u>	<u>(8,505)</u>	<u>74,492</u>

14. OTHER ASSETS

	2014		2013
	(Rupees in '000)		
Income / mark-up accrued in local currency		223,079	117,089
Income / mark-up accrued in foreign currency		26,757	25,993
Advances, deposits, advance rent and other prepayments		80,084	169,157
Advance taxation (payments less provisions)		778,795	778,854
Branch adjustment account		-	-
Unrealized gain on forward foreign exchange contracts	14.1	371,172	375,915
Unrealized gain on interest rate swaps	14.2	80,938	98,737
Others		10,699	2,291
		<u>1,571,524</u>	1,568,036
Less: Provision held against other assets	14.3	(4,719)	(5,329)
Other assets (net of provision)		<u>1,566,805</u>	<u>1,562,707</u>

14.1 Unrealized gain on forward foreign exchange contracts value is net of general counterparties specific reserves of Rs. Nil (2013: Rs.Nil) in accordance with the head office instructions.

14.2 Unrealized gain on interest rate swaps value is net of general counterparties specific reserves of Rs. 2.867 million (2013: Rs. 4.403 million) in accordance with the head office instructions.

14.3 Provision against other assets	2014	2013
	(Rupees in '000)	
Opening balance	5,329	5,329
Charge for the year	-	-
Reversals	(610)	-
	(610)	-
Closing balance	<u>4,719</u>	<u>5,329</u>

15. BILLS PAYABLE

In Pakistan	<u>629,787</u>	<u>324,717</u>
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16. BORROWINGS FROM FINANCIAL INSTITUTIONS

In Pakistan	288,861	447,215
Outside Pakistan	571,546	3,557,434
	<u>860,407</u>	<u>4,004,649</u>

16.1 Particulars of borrowings with respect to currencies

In local currency	288,861	447,215
In foreign currencies	571,546	3,557,434
	<u>860,407</u>	<u>4,004,649</u>

16.2 Details of borrowings secured / unsecured

Secured

Borrowings from the State Bank of Pakistan under export refinance scheme	16.2.1	230,000	430,000
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Unsecured

Call Borrowing	16.2.2	-	-
Overdrawn nostro accounts - Interbranch and a subsidiary of Deutsche Bank, AG		571,546	3,557,179
Others	16.2.3	58,861	17,470
		<u>630,407</u>	<u>3,574,649</u>
		<u>860,407</u>	<u>4,004,649</u>

16.2.1 These borrowings carry mark-up at rate of 6.50% p.a (2013: 8.40% p.a) and are secured against promissory notes, undertakings in favour of the Bank and export documents. The mark-up is payable quarterly at the time of partial payment or upon maturity of loan, whichever is earlier.

16.2.2 This borrowing carry interest rate Nil (2013: Nil).

16.2.3 This is overdrawn nostro accounts from commercial banks.

17. DEPOSITS AND OTHER ACCOUNTS	2014	2013
	(Rupees in '000)	
Customers		
Fixed deposits	3,627,925	6,025,995
Savings deposits	5,018,054	6,644,414
Current accounts - non-remunerative	3,991,423	3,149,758
Others	16,909	20,777
	<u>12,654,311</u>	<u>15,840,944</u>
Financial institutions		
Non-remunerative deposits		
- interbranch	9,226	7,939
- others	0	248
	9,226	8,187
	<u>12,663,537</u>	<u>15,849,131</u>
17.1 Particulars of deposits		
In local currency	11,887,264	14,881,954
In foreign currencies	776,273	967,177
	<u>12,663,537</u>	<u>15,849,131</u>
18. OTHER LIABILITIES		
Mark-up / return / interest payable in local currency	176,919	98,927
Mark-up / return / interest payable in foreign currency	6	13
Unearned commission and income on bills discounted	41,042	19,600
Accrued expenses	90,126	137,090
Unrealized loss on forward foreign exchange contracts	341,673	486,928
Unrealized loss on interest rate and cross currency swaps	30,486	64,107
Amount due to head office and branches	6,195	22,881
Unremitted head office expenses	1,361,674	1,164,309
Payable to defined benefit plan	39,249	42,976
Provision against off-balance sheet obligations - general	31,252	26,210
Workers Welfare Fund payable	137,852	119,163
Others	134,399	156,691
	<u>2,390,873</u>	<u>2,338,895</u>
18.1 Provision against off-balance sheet obligations		
Opening balance	26,210	21,519
Charge / (Reversal) for the year	5,042	4,691
Closing balance	<u>31,252</u>	<u>26,210</u>
19. HEAD OFFICE CAPITAL ACCOUNT		
Capital held as interest free deposit in approved foreign exchange.		
i) Remitted from head office Euro 32,048,165 (2013: Euro 32,048,165)	4,649,699	4,115,584
ii) Revaluation advised by the State Bank of Pakistan during the year	(735,640)	534,115
	<u>3,914,059</u>	<u>4,649,699</u>

20.	SURPLUS/(DEFICIT) ON REVALUATION OF ASSETS - NET OF TAX	2014	2013
		(Rupees in '000)	
	Federal Government securities	25,903	(2,734)
	Related deferred tax	(9,066)	957
		<u>16,837</u>	<u>(1,777)</u>
21.	CONTINGENCIES AND COMMITMENTS		
21.1	Transaction-related contingent liabilities		
	Contingent liability in respect of performance bonds, bid bonds, shipping guarantees, etc. favouring:		
	i) Government	18,102,270	17,437,315
	ii) Banking companies and other financial institutions	66,475	105,829
	iii) Others	908,099	533,628
21.2	Trade-related contingent liabilities		
	Acceptances	1,269,802	831,006
	Letters of credit	2,144,129	1,901,338
21.3	Commitments in respect of forward lending		
	Forward repurchase agreement lending (Reverse repo)	6,312,559	9,757,121
	Commitments to extend credit	17,094,609	15,727,446
21.4	Commitments in respect of forward exchange contracts		
	Purchase:		
	- from the State Bank of Pakistan	-	2,714,375
	- from others	18,705,588	19,574,640
	Sale:		
	- to the State Bank of Pakistan	-	-
	- to others	18,673,952	18,102,073
	The maturities of above contracts are spread over a period of one year.		
21.5	Cheques in clearing	1,937,275	5,500,250
21.6	Capital expenditures commitments	-	-
21.7	Other contingencies		
21.7.1	Appeals for various assessment years are pending before Income Tax Appellate Authorities contesting additional demands of Rs. 504 million (2013: Rs. 306 million). The Bank is vigorously contesting its appeals and is confident that no additional liability would arise.		
21.8	Other commitments		
	Interest rate swaps - notional amounts	2,685,122	4,059,082

22. DERIVATIVE INSTRUMENTS

The Bank is providing solutions to this conundrum through derivatives. Through this, counterparties hedge exposure to adverse price movements in a security, typically when the counterparty has a concentrated position in the security and is acutely exposed to movements in the underlying risk factors. The bank is in a better position to hedge that risk, and is thus able to provide cost efficient hedging solutions to the counterparties enabling them to concentrate on their business risk.

Other objectives include:

- contribution to the development of Pakistani financial markets.
- provision of financial solutions to the counterparties.

We use the combination of risk sensitivities, value-at-risk, stress testing and economic capital matrix to manage market risks and establish limits. Economic capital is the metric we use to describe and aggregate all our market risk, both in trading and non-trading portfolios. Value-at-risk is a common metric we use in the management of our trading market risks.

22.1 Product analysis

Counterparties	2014					
	Interest rate swaps		Cross currency swaps		FX Options	
	Number of contracts	Notional principal (Rupees in '000)	Number of contracts	Notional principal (Rupees in '000)	Number of contracts	Notional principal (Rupees in '000)
With Banks for						
- Hedging	1	1,011,061	-	-	-	-
- Market Making	2	1,674,061	-	-	-	-
With other entities for						
- Hedging	-	-	-	-	-	-
- Market Making	-	-	-	-	-	-
Total						
- Hedging	1	1,011,061	-	-	-	-
- Market Making	2	1,674,061	-	-	-	-
	3	2,685,122	-	-	-	-
Counterparties	2013					
	Interest rate swaps		Cross currency swaps		FX Options	
	Number of contracts	Notional principal (Rupees in '000)	Number of contracts	Notional principal (Rupees in '000)	Number of contracts	Notional principal (Rupees in '000)
With Banks for						
- Hedging	2	1,973,677	-	-	-	-
- Market Making	2	2,085,405	-	-	-	-
With other entities for						
- Hedging	-	-	-	-	-	-
- Market Making	-	-	-	-	-	-
Total						
- Hedging	2	1,973,677	-	-	-	-
- Market Making	2	2,085,405	-	-	-	-
	4	4,059,082	-	-	-	-

22.2 Maturity analysis

Interest rate swaps and cross currency swaps

Remaining Maturity	Number of contracts	Notional principal	2014		
			Mark to Market		Net
			Negative	Positive	
----- (Rupees in '000)-----					
Interest Rate SWAP					
Upto 1 month					-
3 to 5 years	3	2,685,122	(30,486)	83,805	53,319
5 to 10 years					-
					-
Cross Currency SWAP					
3 to 6 months		-	-	-	-
6 months to 1 year		-	-	-	-
Less: reserves				(2,867)	(2,867)
	3	<u>2,685,122</u>	<u>(30,486)</u>	<u>80,938</u>	<u>50,452</u>

At the exchange rate prevailing at the end of the reporting period Rs. 100.483 per \$ 1

Remaining Maturity	No. of contracts	Notional principal	2013		
			Mark to Market		Net
			Negative	Positive	
----- (Rupees in '000)-----					
Interest Rate SWAP					
Upto 1 month	1	737,272	(18,687)	-	(18,687)
3 to 5 years	1	849,000	-	55,249	55,249
5 to 10 years	2	2,472,810	(45,420)	47,891	2,471
Cross Currency SWAP					
3 to 6 months		-	-	-	-
6 months to 1 year		-	-	-	-
Less: reserves				(4,403)	(4,403)
	4	<u>4,059,082</u>	<u>(64,107)</u>	<u>98,737</u>	<u>34,630</u>

At the exchange rate prevailing at the end of the reporting period Rs. 105.3246 per \$ 1

23. MARK-UP / RETURN / INTEREST EARNED

	2014	2013
	(Rupees in '000)	
On loans and advances to:		
- Customers	613,977	430,429
On investments in available-for-sale securities	307,472	549,344
On deposits with financial institutions	6	69
On securities purchased under resale agreements	620,509	664,878
Others	17	21
	<u>1,541,981</u>	<u>1,644,741</u>

24. MARK-UP / RETURN / INTEREST EXPENSED	2014	2013	
	(Rupees in '000)		
Deposits	687,041	660,886	
Securities sold under repurchase agreements	10,080	23,570	
Other short term borrowings	27,256	34,868	
Others	1,160	31	
	<u>725,537</u>	<u>719,355</u>	
25. INCOME FROM DEALING IN FOREIGN CURRENCIES AND DERIVATIVES			
Exchange income from dealing in foreign currencies - net	573,616	596,133	
Gain/(loss) on derivatives - net	31,956	(268,782)	
	<u>605,572</u>	<u>327,351</u>	
26. OTHER INCOME			
Profit / (Loss) on sale of property and equipment	2,610	6,613	
Others	16,704	5,824	
	<u>19,314</u>	<u>12,437</u>	
27. ADMINISTRATIVE EXPENSES			
Salaries, allowances, etc.	27.1	357,078	392,428
Voluntary separation scheme		72,814	-
Charge for defined benefit plan	32.7	22,270	22,220
Contribution to defined contribution plan		25,559	22,451
Worker's Welfare Fund		18,689	10,006
Head office expenses	27.2	197,365	437,784
Rent, taxes, insurance, electricity, etc.		106,411	92,893
Legal and professional charges		7,552	10,363
Communications		27,948	19,146
Repairs and maintenance		16,750	12,611
Stationery and printing		16,242	11,823
Advertisement and publicity		215	346
Donations		-	-
Auditors' remuneration	27.3	2,968	3,230
Depreciation	12.2	63,844	63,977
Others		61,118	44,800
		<u>996,823</u>	<u>1,144,078</u>

- 27.1** The Bank operates an employee performance bonus and global share scheme for all of its employees. In addition a restricted cash award scheme (share based incentives) is also offered to selected executives. The aggregate amount determined by the group for the eligible employees in respect of the above schemes relating to all Executives of the Pakistan branches amounted to Rs. 45.903 million, Rs. 0.025 and Rs. 18.238 million (2013: Rs. 84.503 million, 0.698 million and Rs.33.078 million) respectively.
- 27.2** This includes an amount of Rs. 72.814 million (2013 : Nil) paid to certain leaving employees as per instructions of Head Office.

27.2 Head office expenses	2014	2013
	(Rupees in '000)	
SAP expenses	1,811	1,775
MLC charges	24,924	57,463
Ben / Acorn charges	163,923	288,684
Head office expenses	2,376	39,831
German Bank levy and contribution to deposit protection fund	481	269
Risk participation fee	3,488	3,208
Global HR product	3,777	764
DB Singapore charges	1,169	52,729
	<u>201,949</u>	<u>444,723</u>
Less: Other income	<u>(4,584)</u>	<u>(6,939)</u>
	<u><u>197,365</u></u>	<u><u>437,784</u></u>
27.3 Auditors' remuneration		
Audit fee	2,081	1,985
Special certifications and sundry advisory services	887	1,245
	<u>2,968</u>	<u>3,230</u>
28. OTHER CHARGES		
Penalties imposed by the State Bank of Pakistan	1,252	165
Others	-	-
	<u>1,252</u>	<u>165</u>
29. TAXATION		
For the year		
Current	320,520	181,240
Prior year	-	-
	<u>320,520</u>	<u>181,240</u>
Deferred		
Current	776	(8,726)
Prior year	-	-
	<u>776</u>	<u>(8,726)</u>
	<u><u>321,296</u></u>	<u><u>172,514</u></u>
29.1 Relationship between tax expense and accounting profit		
Profit before tax	<u>909,915</u>	<u>490,277</u>
Tax calculated at the rate of 35% (2013: 35%)	318,470	171,597
Effect of :		
- permanent differences	1,251	58
- Others	1,574	859
Tax charge for the year	<u>321,295</u>	<u>172,514</u>

30. CASH AND CASH EQUIVALENTS		2014	2013
		(Rupees in '000)	
Cash and balance with treasury banks		5,523,757	6,193,227
Balances with other banks		492,331	208,293
		<u>6,016,088</u>	<u>6,401,520</u>
31. STAFF STRENGTH		2014	2013
		(In number)	
Permanent		78	77
Outsourced		28	32
Total staff strength		<u>106</u>	<u>109</u>
32. DEFINED BENEFIT PLAN			
32.1 General description			
All permanent employees of the Bank are eligible for pension under the pension fund scheme on completing 10 years of service with the Bank. The benefit under the scheme comprises of 1.5 percent of monthly basic salary (during the last completed year of service) for each year of service, subject to a maximum of 30 years of service.			
32.2 Principal actuarial assumptions			
The actuarial valuation of the defined benefit plan was carried on 31 December 2014. Projected Unit Credit Method is used for the calculation and the key assumptions used for actuarial valuation were as follows:			
		2014	2013
Discount rate		13.30% p.a.	11.00% p.a.
Expected rate of increase in salary in future years		12.30% p.a.	13.30% p.a.
Expected rate of return on plan assets		12.30% p.a.	11.00% p.a.
Withdrawal rate before normal retirement age		"Moderate"	"Moderate"
Expected annual rate of increase in monthly pensions		6.40% p.a.	7.00% p.a.
32.3 Reconciliation of payable to defined benefit plan		2014	2013
		(Rupees in '000)	
Present value of defined benefit obligations	32.4	475,996	430,322
Fair value of plan assets	32.5	(436,746)	(387,346)
	32.6	<u>39,250</u>	<u>42,976</u>
32.4 Movement in present value of defined benefit plan			
Opening balance		430,322	399,985
Current service cost		18,486	17,186
Interest cost		56,049	44,169
Actuarial Loss / (gain) on defined benefit obligation		(16,004)	(18,727)
Benefits paid during the year		(12,857)	(12,291)
Closing balance		<u>475,996</u>	<u>430,322</u>

32.5 Movement in fair value of plan assets	2014	2013
	(Rupees in '000)	
Opening balance	387,346	349,313
Interest income on plan assets	51,876	38,746
Contribution made	19,064	17,972
Benefits paid by the fund	(12,857)	(12,291)
Loss on plan assets (excluding interest income)	(8,683)	(6,394)
Closing balance	436,746	387,346

32.5.1 Plan assets consist of the following:

Pakistan Investment Bonds (including accrued interest)	209,847	104,123
Market Treasury Bills (including accrued interest)	225,486	281,616
Balances with banks	1,413	1,607
	436,746	387,346

32.6 Movement in net payable/receivable to/from defined benefit plan

Opening balance	42,976	50,672
Charge for the year	22,270	22,220
Actuarial gain / (loss) recognized outside profit and loss directly in equity	(7,321)	(12,333)
Contribution to fund made during the year	(18,676)	(17,583)
Closing balance	39,249	42,976

32.7 Charge for defined benefit plan

Current service cost	18,486	17,186
Interest cost	56,049	44,169
Expected return on plan assets	(51,876)	(38,746)
Contribution received from DB Riyadh	(389)	(389)
	22,270	22,220

32.8 Actual return on plan assets

	43,193	32,352
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32.9 Historical information

	2014	2013	2012	2011	2010
	----- (Rupees in '000) -----				
Defined benefit obligation	475,996	430,322	399,985	347,712	315,265
Fair value of plan assets	(436,746)	(387,346)	(349,313)	(319,092)	(275,382)
Deficit / (surplus)	39,250	42,976	50,672	28,620	39,883

33. COMPENSATION OF DIRECTORS AND EXECUTIVES

	Chief Country Officer		Executives	
	2014	2013	2014	2013
	----- (Rupees in '000) -----			
Managerial remuneration	32,375	25,000	176,486	167,572
Charge for defined benefit plan	2,832	2,186	15,102	14,347
Contribution to defined contribution plan	4,967	2,890	19,536	18,398
Rent and house maintenance		-		-
Medical	163	130	1,609	1,554
	<u>40,337</u>	<u>30,206</u>	<u>212,733</u>	<u>201,871</u>
	----- (Number) -----			
Number of persons	<u>2</u>	<u>1</u>	<u>65</u>	<u>62</u>

- 33.1 The Chief Country Officer and certain Executives are provided with free club membership and free use of the Bank's maintained cars in accordance with their entitlement.

In addition to above, all executives, including the Chief Country Officer of the Bank are also entitled to certain short term employee benefits which are disclosed in note 27.1 to these financial statements.

34. FAIR VALUE OF FINANCIAL INSTRUMENTS

The investments are stated at their fair value based on market interest rates and prices. In the opinion of the management the fair values of financial assets and liabilities, except for fixed term advances of over one year, staff loans and fixed term deposits of over one year are not significantly different from their book values since assets and liabilities are either short term in nature or frequently repriced.

In the opinion of management, the fair values of fixed term advances of over one year, staff loans and fixed term deposits of over one year cannot be calculated with sufficient reliability due to non-availability of relevant active market for similar assets and liabilities.

35. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

Deutsche Bank comprises five corporate divisions: Corporate Banking & Securities (CB&S), Global Transaction Banking (GTB), Deutsche Asset & Wealth Management (DeAWM), Private & Business Clients (PBC) and the Non-Core Operations Unit (NCOU

We operate a transfer pricing framework that applies to all businesses and promotes pricing of :

- (i) assets in accordance with their underlying liquidity risk,
- (ii) liabilities in accordance with their funding maturity and
- (iii) contingent liquidity exposures in accordance with the cost of providing for commensurate liquidity reserves to fund unexpected cash requirements.

Within this transfer pricing framework we allocate funding and liquidity risk costs and benefits to the firm's business units and set financial incentives in line with the firm's liquidity risk guidelines. Transfer prices are subject to liquidity (term) premiums depending on market conditions. Liquidity premiums are set by Treasury and picked up by a segregated liquidity account. The Treasury liquidity account is the aggregator of long-term liquidity costs. The management and cost allocation of the liquidity account is the key variable for transfer pricing funding costs within Deutsche Bank.

Corporate banking and securities

Corporate Banking and Securities comprises Global Markets and Corporate Finance businesses.

Global Markets combines 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, securitized instruments and commodities.

Corporate Finance is responsible for mergers and acquisitions, including advisory, debt and equity issuance, and capital markets coverage of large and medium-sized corporations. Regional and industry-focused teams ensure the delivery of the entire range of financial products and services.

Global transaction banking

Global Transaction Banking provides commercial banking products and services for both corporates and financial institutions worldwide, including domestic and cross-border payments, cash management, risk mitigation and international trade finance as well as trust, agency, depository, custody and related services.

Infrastructure and Regional management

It includes all the back offices which are responsible to provide support services to the businesses.

	2014			
	Corporate banking and securities (Global market)	Global transaction banking	Infrastructure & Regional management	Total
	------(Rupees in '000)-----			
2014				
Total income	801,631	1,785,530	89,260	2,676,421
Total expenses	(276,883)	(1,408,863)	(80,760)	(1,766,506)
Net income (loss) before tax	<u>524,748</u>	<u>376,667</u>	<u>8,500</u>	<u>909,915</u>
Segment assets (gross)	13,622,648	7,228,753	1,286,969	22,138,369
Segment provision	-	(430,805)	-	(430,805)
Segment liabilities	(1,244,170)	(13,721,931)	(1,578,503)	(16,544,604)
Segment return on net assets (ROA) (%)	5.88%	24.70%	6.94%	12.09%
Segment cost of funds (%)	22.25%	10.27%	5.12%	10.68%
	2013			
	Corporate banking and securities (Global market)	Global transaction banking	Infrastructure & Regional management	Total
	------(Rupees in '000)-----			
2012				
Total income	609,815	1,671,543	79,867	2,361,225
Total expenses	(333,798)	(1,453,806)	(83,345)	(1,870,949)
Net income (loss) before tax	<u>276,017</u>	<u>217,737</u>	<u>(3,478)</u>	<u>490,276</u>
Segment assets (gross)	22,025,612	4,766,102	1,404,631	28,196,345
Segment provision	-	(392,343)	-	(392,343)
Segment liabilities	(4,339,979)	(16,714,641)	(1,462,775)	(22,517,395)
Segment return on net assets (ROA) (%)	2.77%	35.07%	5.69%	8.37%
Segment cost of funds (%)	7.69%	8.70%	5.70%	8.31%

36. RELATED PARTY TRANSACTIONS

Related parties comprise of head office, other branches of the Bank and employees' retirement benefit funds. The transactions with related parties are conducted under normal course of business at arm's length prices. The Bank also provides advances to employees at reduced rate in accordance with their terms of employment. The transactions and balances with related parties, other than those under the terms of employment and those disclosed elsewhere are summarized as follows:

	2014	2013
	(Rupees in '000)	
Profit and loss items		
Mark-up / interest / income earned	17	19
Mark-up / interest / income expensed	1,157	25
Balance sheet items		
Balances with other branches and a subsidiary of Deutsche Bank, AG	485,548	37,982
Borrowings from other branches and a subsidiary of Deutsche Bank, AG	571,546	3,557,179
Interbranch deposits and other accounts	9,226	7,939
Deposits and other accounts		
Balance at the beginning of the year	40	5,530
Deposits made during the year	1,579,635	1,145,922
Withdrawals made during the year	(1,579,674)	(1,151,412)
Balance at the year end	<u>1</u>	<u>40</u>
Off-balance sheet items		
Interest rate swaps	1,011,061	1,973,677
Counter guarantees to branches	12,870,639	11,611,640
Forward purchase of foreign exchange	743,181	735,945
Forward sale of foreign exchange	877,827	790,786
FX Options	-	-

37. CAPITAL MANAGEMENT

Our Treasury function manages our capital at Group level and locally in each region. The allocation of financial resources, in general, and capital, in particular, favours business portfolios with the highest positive impact on the Group's profitability and shareholder value. As a result, Treasury periodically reallocates capital among business portfolios.

Regional capital plans covering the capital needs are presented to the Group Investment Committee. Local Asset and Liability Committees attend to those needs under the stewardship of regional Treasury teams. In developing, implementing and testing our capital and liquidity, we take legal and regulatory requirements into account.

The regulatory and economic capital demand is continuously monitored to adjust the available capital if required. Capital demand forecasts are regularly determined and carried forward based on the planned development of the business volume and results as well as expected risk parameter changes.

37.1 Capital-assessment and adequacy Basel III specific

37.1.1 Scope of Applications

The Bank currently uses Basel III framework for the Capital Assessment and Capital Adequacy purposes. Basel III Standardized Approach is used for calculating the Capital Adequacy for Credit and Market risk, whereas, Basic Indicator Approach (BIA) is used for Operational Risk Capital Adequacy purposes.

37.1.2 Capital Structure

The lead regulator, State Bank of Pakistan (SBP) sets and monitors capital requirements for the banks in Pakistan as a whole. With effect from 31 December 2013, the SBP has advised through its BPRD circular # 6 dated August 15 2013 that all banks to calculate their capital requirements on Basel III Accord. The amendments have been introduced with an aim to further strengthen the existing capital related rules. Basel III instructions have become effective from December 31, 2013; However, there is a transitional phase during which the complete requirements would become applicable with full implementation by December 31, 2019.

In implementing the current capital requirements, SBP requires the Bank to maintain a prescribed total capital to total risk-weighted assets ratio. As at the year end 2013, the SBP's minimum prescribed capital adequacy ratio is 10%. Further, under Basel III instructions, Banks are also required to maintain a Common Equity Tier 1 (CET1) ratio and Tier 1 ratio of 5.5% and 7% respectively as at December 31, 2014. The Bank's ratio is compliant with this minimum benchmark.

The Pakistan Branches of Deutsche Bank calculate requirement for market risk on its portfolio based upon the methodology provided by SBP which takes account of specific and general market risk capital charge for interest rate risk using the maturity method.

Banking operations are categorized as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Bank's regulatory capital is analyzed into following tiers:

- Tier I capital: includes head office capital account, and un-remitted profit.
- Tier II capital: includes general provision not kept against identified debts.

37.2 Capital Adequacy Ratio (CAR) disclosure template:

CAPITAL ADEQUACY RETURN AS OF DECEMBER 31, 2014

		2014	2013
		Rupees in '000	
		Amount	Amount
Rows # Common Equity Tier 1 capital (CET1): Instruments and reserves			
1	Fully Paid-up Capital/ Capital deposited with SBP	3,914,059	4,649,699
2	Balance in Share Premium Account		
3	Reserve for issue of Bonus Shares		
4	Discount on Issue of shares		
5	General/ Statutory Reserves		
6	Gain/(Losses) on derivatives held as Cash Flow Hedge		
7	Unappropriated/unremitted profits/ (losses)	1,232,065	638,687
8	Minority Interests arising from CET1 capital instruments issued to third parties by consolidated bank subsidiaries (amount allowed in CET1 capital of the consolidation group)		
9	CET 1 before Regulatory Adjustments	5,146,124	5,288,386
10	Total regulatory adjustments applied to CET1 (Note 37.2.1)	-	1,777
11	Common Equity Tier 1	5,146,124	5,286,609
Additional Tier 1 (AT 1) Capital			
12	Qualifying Additional Tier-1 capital instruments plus any related share premium		
13	of which: Classified as equity		
14	of which: Classified as liabilities		
15	Additional Tier-1 capital instruments issued to third parties by consolidated subsidiaries (amount allowed in group AT 1)		
16	of which: instrument issued by subsidiaries subject to phase out		
17	AT1 before regulatory adjustments	-	-
18	Total regulatory adjustment applied to AT1 capital (Note 37.2.2)	-	-
19	Additional Tier 1 capital after regulatory adjustments	-	-
20	Additional Tier 1 capital recognized for capital adequacy		
21	Tier 1 Capital (CET1 + admissible AT1) (11+20)	5,146,124	5,286,609
Tier 2 Capital			
22	Qualifying Tier 2 capital instruments under Basel III plus any related share premium		
23	Tier 2 capital instruments subject to phaseout arrangement issued under pre-Basel 3 rules		
24	Tier 2 capital instruments issued to third parties by consolidated subsidiaries (amount allowed in group tier 2)		
25	of which: instruments issued by subsidiaries subject to phase out		
26	General provisions or general reserves for loan losses-up to maximum of 1.25% of Credit Risk Weighted Assets	114,487	60,983
27	Revaluation Reserves (net of taxes)		
28	of which: Revaluation reserves on fixed assets		
29	of which: Unrealized gains/losses on AFS	9,429	-
30	Foreign Exchange Translation Reserves		
31	Undisclosed/Other Reserves (if any)		
32	T2 before regulatory adjustments	123,916	60,983
33	Total regulatory adjustment applied to T2 capital (Note 37.2.3)	-	-
34	Tier 2 capital (T2) after regulatory adjustments		
35	Tier 2 capital recognized for capital adequacy		
36	Portion of Additional Tier 1 capital recognized in Tier 2 capital		
37	Total Tier 2 capital admissible for capital adequacy	123,916	60,983
38	TOTAL CAPITAL (T1 + admissible T2) (21+37)	5,270,040	5,347,592
39	Total Risk Weighted Assets (RWA) {for details refer Note 37.5}	32,582,879	30,164,905

Capital Ratios and buffers (in percentage of risk weighted assets)			
40	CET1 to total RWA	15.79%	17.53%
41	Tier-1 capital to total RWA	15.79%	17.53%
42	Total capital to total RWA	16.17%	17.73%
43	Bank specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus any other buffer requirement)		
44	of which: capital conservation buffer requirement		
45	of which: countercyclical buffer requirement		
46	of which: D-SIB or G-SIB buffer requirement		
47	CET1 available to meet buffers (as a percentage of risk weighted assets)		
	National minimum capital requirements prescribed by SBP		
48	CET1 minimum ratio		
49	Tier 1 minimum ratio		
50	Total capital minimum ratio		

Rupees in '000

Regulatory Adjustments and Additional Information	Amount	Amounts subject to Pre- Basel III treatment*	Amount
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Note 37.2.1	Common Equity Tier 1 capital: Regulatory adjustments			
1	Goodwill (net of related deferred tax liability)			
2	All other intangibles (net of any associated deferred tax liability)			
3	Shortfall in provisions against classified assets			
4	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)			
5	Defined-benefit pension fund net assets			
6	Reciprocal cross holdings in CET1 capital instruments of banking, financial and insurance entities			
7	Cash flow hedge reserve			
8	Investment in own shares/ CET1 instruments			
9	Securitization gain on sale			
10	Capital shortfall of regulated subsidiaries			
11	Deficit on account of revaluation from bank's holdings of fixed assets/ AFS	-		1,777
12	Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)			
13	Significant investments in the common stocks of banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)			
14	Deferred Tax Assets arising from temporary differences (amount above 10% threshold, net of related tax liability)			
15	Amount exceeding 15% threshold			
16	of which: significant investments in the common stocks of financial entities			
17	of which: deferred tax assets arising from temporary differences			
18	National specific regulatory adjustments applied to CET1 capital			
19	Investments in TFCs of other banks exceeding the prescribed limit			
20	Any other deduction specified by SBP (mention details)			
21	Adjustment to CET1 due to insufficient AT1 and Tier 2 to cover deductions			
22	Total regulatory adjustments applied to CET1 (sum of 1 to 21)	-		1,777

Note 37.2.2	Additional Tier-1 & Tier-1 Capital: regulatory adjustments			
23	Investment in mutual funds exceeding the prescribed limit [SBP specific adjustment]			
24	Investment in own AT1 capital instruments			
25	Reciprocal cross holdings in Additional Tier 1 capital instruments of banking, financial and insurance entities			
26	Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)			
27	Significant investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation			
28	Portion of deduction applied 50:50 to Tier-1 and Tier-2 capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from additional tier-1 capital			
29	Adjustments to Additional Tier 1 due to insufficient Tier 2 to cover deductions			
30	Total regulatory adjustment applied to AT1 capital (sum of 23 to 29)	-		-

Note 37.2.3	Tier 2 Capital: regulatory adjustments			
31	Portion of deduction applied 50:50 to Tier-1 and Tier-2 capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from tier-2 capital			
32	Reciprocal cross holdings in Tier 2 instruments of banking, financial and insurance entities			
33	Investment in own Tier 2 capital instrument			
34	Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)			
35	Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation			
36	Total regulatory adjustment applied to T2 capital (sum of 31 to 35)	-		-

2014 2013
Rupees in '000

Note 37.2.4	Additional Information	Amount	Amount
	Risk Weighted Assets subject to pre-Basel III treatment		
37	Risk weighted assets in respect of deduction items (which during the transitional period will be risk weighted subject to Pre-Basel III Treatment)	-	-
(i)	of which: deferred tax assets		
(ii)	of which: Defined-benefit pension fund net assets		
(iii)	of which: Recognized portion of investment in capital of banking, financial and insurance entities where holding is less than 10% of the issued common share capital of the entity		
(iv)	of which: Recognized portion of investment in capital of banking, financial and insurance entities where holding is more than 10% of the issued common share capital of the entity		
	Amounts below the thresholds for deduction (before risk weighting)		
38	Non-significant investments in the capital of other financial entities		
39	Significant investments in the common stock of financial entities		
40	Deferred tax assets arising from temporary differences (net of related tax liability)		
	Applicable caps on the inclusion of provisions in Tier 2		
41	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)		
42	Cap on inclusion of provisions in Tier 2 under standardized approach		
43	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)		
44	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach		

Note: Rows which are not applicable for any institution should be left blank

37.3 Capital structure reconciliation

Step 1	Balance sheet as in published financial statements 2014	Under regulatory scope of consolidation 2014
	----- (Rupees in '000) -----	
Assets		
Cash and balances with treasury banks	5,523,757	5,523,757
Balanced with other banks	492,331	492,331
Lending to financial institutions	6,312,559	6,312,559
Investments	842,929	842,929
Advances	6,603,070	6,603,070
Operating fixed assets	304,984	304,984
Deferred tax assets	61,130	61,130
Other assets	1,566,805	1,566,805
Total assets	21,707,565	21,707,565
Liabilities & Equity		
Bills payable	629,787	629,787
Borrowings	860,407	860,407
Deposits and other accounts	12,663,537	12,663,537
Sub-ordinated loans	-	-
Liabilities against assets subject to finance lease	-	-
Deferred tax liabilities	-	-
Other liabilities	2,390,873	2,390,873
Total liabilities	16,544,604	16,544,604
Share capital / Head office capital account	3,914,059	3,914,059
Reserves	-	-
Unappropriated / unremitted profit/ (losses)	1,232,065	1,232,065
Minority Interest	-	-
Surplus on revaluation of assets	16,837	16,837
Total liabilities & equity	21,707,565	21,707,565

Step 2	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
	As at period end	As at period end	
Assets			
Cash and balances with treasury banks	5,523,757	5,523,757	
Balanced with other banks	492,331	492,331	
Lending to financial institutions	6,312,559	6,312,559	
Investments	842,929	842,929	
<i>of which: Non-significant capital investments in capital of other financial institutions exceeding 10% threshold</i>	-	-	a
<i>of which: significant capital investments in financial sector entities exceeding regulatory threshold</i>	-	-	b
<i>of which: Mutual Funds exceeding regulatory threshold</i>	-	-	c
<i>of which: reciprocal crossholding of capital instrument</i>	-	-	d
<i>of which: others (mention details)</i>	-	-	e
Advances	6,603,070	6,603,070	
<i>shortfall in provisions/ excess of total EL amount over eligible provisions under IRB</i>	-	-	f
<i>general provisions reflected in Tier 2 capital</i>	114,487	114,487	g
Fixed Assets	304,984	304,984	
Deferred Tax Assets	61,130	61,130	
<i>of which: DTAs excluding those arising from temporary differences</i>	-	-	h
<i>of which: DTAs arising from temporary differences exceeding regulatory threshold</i>	-	-	i
Other assets	1,566,805	1,566,805	
<i>of which: Goodwill</i>	-	-	j
<i>of which: Intangibles</i>	-	-	k
<i>of which: Defined-benefit pension fund net assets</i>	-	-	l
Total assets	21,707,565	21,707,565	
Liabilities & Equity			
Bills payable	629,787	629,787	
Borrowings	860,407	860,407	
Deposits and other accounts	12,663,537	12,663,537	
Sub-ordinated loans			
<i>of which: eligible for inclusion in AT1</i>	-	-	m
<i>of which: eligible for inclusion in Tier 2</i>	-	-	n
Liabilities against assets subject to finance lease			
Deferred tax liabilities			
<i>of which: DTLs related to goodwill</i>	-	-	o
<i>of which: DTLs related to intangible assets</i>	-	-	p
<i>of which: DTLs related to defined pension fund net assets</i>	-	-	q
<i>of which: other deferred tax liabilities</i>	-	-	r
Other liabilities	2,390,873	2,390,873	
Total liabilities	16,544,604	16,544,604	

Share capital	3,914,059	3,914,059	
<i>of which: amount eligible for CET1</i>	3,914,059	3,914,059	s
<i>of which: amount eligible for AT1</i>	-	-	t
Reserves			
<i>of which: portion eligible for inclusion in CET1(provide breakup)</i>			
<i>of which: portion eligible for inclusion in Tier 2</i>	-	-	u
	-	-	v
Unappropriated profit/ (losses)	1,232,065	1,232,065	w
Minority Interest			
<i>of which: portion eligible for inclusion in CET1</i>	-	-	x
<i>of which: portion eligible for inclusion in AT1</i>	-	-	y
<i>of which: portion eligible for inclusion in Tier 2</i>	-	-	z
Surplus on revaluation of assets	16,837	16,837	
<i>of which: Revaluation reserves on Property</i>	-	-	aa
<i>of which: Unrealized Gains/Losses on AFS</i>	9,429	9,429	
<i>In case of Deficit on revaluation (deduction from CET1)</i>	-	-	ab
Total liabilities & Equity	21,707,565	21,707,565	

Step 3		Component of regulatory capital reported by bank (amount in thousand PKR)	Source based on reference number from step 2
Common Equity Tier 1 capital (CET1): Instruments and reserves			
1	Fully Paid-up Capital/ Capital deposited with SBP	3,914,059	
2	Balance in Share Premium Account	-	(s)
3	Reserve for issue of Bonus Shares	-	
4	General/ Statutory Reserves	-	(u)
5	Gain/(Losses) on derivatives held as Cash Flow Hedge	-	
6	Unappropriated/unremitted profits/(losses)	1,232,065	(w)
7	Minority Interests arising from CET1 capital instruments issued to third party by consolidated bank subsidiaries (amount allowed in CET1 capital of the consolidation group)	-	(x)
8	CET 1 before Regulatory Adjustments	5,146,124	
Common Equity Tier 1 capital: Regulatory adjustments			
9	Goodwill (net of related deferred tax liability)	-	(j) - (o)
10	All other intangibles (net of any associated deferred tax liability)	-	(k) - (p)
11	Shortfall of provisions against classified assets	-	(f)
12	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	{(h) - (r)} * x%
13	Defined-benefit pension fund net assets	-	{(l) - (q)} * x%
14	Reciprocal cross holdings in CET1 capital instruments	-	(d)
15	Cash flow hedge reserve	-	
16	Investment in own shares/ CET1 instruments	-	
17	Securitization gain on sale	-	
18	Capital shortfall of regulated subsidiaries	-	
19	Deficit on account of revaluation from bank's holdings of property/ AFS	-	(ab)
20	Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	(a) - (ac) - (ae)
21	Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	(b) - (ad) - (af)
22	Deferred Tax Assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	(i)
23	Amount exceeding 15% threshold	-	
24	of which: significant investments in the common stocks of financial entities	-	
25	of which: deferred tax assets arising from temporary differences	-	
26	National specific regulatory adjustments applied to CET1 capital	-	
27	Investment in TFCs of other banks exceeding the prescribed limit	-	
28	Any other deduction specified by SBP (mention details)	-	
29	Regulatory adjustment applied to CET1 due to insufficient AT1 and Tier 2 to cover deductions	-	
30	Total regulatory adjustments applied to CET1 (sum of 9 to 25)	-	
	Common Equity Tier 1	5,146,124	
Additional Tier 1 (AT 1) Capital			
31	Qualifying Additional Tier-1 instruments plus any related share premium	-	
32	of which: Classified as equity	-	(t)
33	of which: Classified as liabilities	-	(m)
34	Additional Tier-1 capital instruments issued by consolidated subsidiaries and held by third parties (amount allowed in group AT 1)	-	(y)
35	of which: instrument issued by subsidiaries subject to phase out	-	
36	AT1 before regulatory adjustments	-	

Step 3		Component of regulatory capital reported by bank (amount in thousand PKR)	Source based on reference number from step 2
Additional Tier 1 Capital: regulatory adjustments			
37	Investment in mutual funds exceeding the prescribed limit (SBP specific adjustment)	-	
38	Investment in own AT1 capital instruments	-	
39	Reciprocal cross holdings in Additional Tier 1 capital instruments	-	
40	Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	(ac)
41	Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	(ad)
42	Portion of deduction applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from tier-1 capital	-	
43	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	
44	Total of Regulatory Adjustment applied to AT1 capital	-	
45	Additional Tier 1 capital	-	
46	Additional Tier 1 capital recognized for capital adequacy	-	
	Tier 1 Capital (CET1 + admissible AT1)	5,146,124	
Tier 2 Capital			
47	Qualifying Tier 2 capital instruments under Basel III	-	
48	Capital instruments subject to phase out arrangement from tier 2 (Pre-Basel III instruments)	-	(n)
49	Tier 2 capital instruments issued to third party by consolidated subsidiaries (amount allowed in group tier 2)	-	(z)
50	of which: instruments issued by subsidiaries subject to phase out	-	
51	General Provisions or general reserves for loan losses-up to maximum of 1.25% of Credit Risk Weighted Assets	114,487	(g)
52	Revaluation Reserves eligible for Tier 2	-	
53	of which: portion pertaining to Property	-	
54	of which: portion pertaining to AFS securities	9,429	portion of (aa)
55	Foreign Exchange Translation Reserves	-	(v)
56	Undisclosed/Other Reserves (if any)	-	
57	T2 before regulatory adjustments	123,916	
Tier 2 Capital: regulatory adjustments			
58	Portion of deduction applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from tier-2 capital	-	
59	Reciprocal cross holdings in Tier 2 instruments	-	
60	Investment in own Tier 2 capital instrument	-	
61	Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	(ae)
62	Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	(af)
63	Amount of Regulatory Adjustment applied to T2 capital	-	
64	Tier 2 capital (T2)	-	
65	Tier 2 capital recognized for capital adequacy	-	
66	Excess Additional Tier 1 capital recognized in Tier 2 capital	-	
67	Total Tier 2 capital admissible for capital adequacy	123,916	
	TOTAL CAPITAL (T1 + admissible T2)	5,270,040	

37.4 Main Features Template of Regulatory Capital Instruments

Disclosure template for main features of regulatory capital instruments		
	Main Features	Common Shares
1	Issuer	N/A
2	Unique identifier (eg KSE Symbol or Bloomberg identifier etc.)	N/A
3	Governing law(s) of the instrument	N/A
	Regulatory treatment	
4	Transitional Basel III rules	N/A
5	Post-transitional Basel III rules	N/A
6	Eligible at solo/ group/ group&solo	N/A
7	Instrument type	N/A
8	Amount recognized in regulatory capital (Currency in PKR thousands, as of reporting date)	N/A
9	Par value of instrument	N/A
10	Accounting classification	N/A
11	Original date of issuance	N/A
12	Perpetual or dated	N/A
13	Original maturity date	N/A
14	Issuer call subject to prior supervisory approval	N/A
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	
	Coupons / dividends	N/A
17	Fixed or floating dividend/ coupon	N/A
18	coupon rate and any related index/ benchmark	N/A
19	Existence of a dividend stopper	N/A
20	Fully discretionary, partially discretionary or mandatory	N/A
21	Existence of step up or other incentive to redeem	N/A
22	Noncumulative or cumulative	N/A
23	Convertible or non-convertible	N/A
24	If convertible, conversion trigger (s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down feature	N/A
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	N/A
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A

37.5 Risk Weighted Assets

The capital requirements for the banking group as per the major risk categories should be indicated in the manner given below:-

	Capital Requirements		Risk Weighted Assets	
	2014	2013	2014	2013
----- (Rupees in '000) -----				
Credit Risk				
<u>Portfolios subject to standardized approach (Simple)</u>				
Cash & cash equivalents	-	-	-	-
Sovereign	77,008	60,153	770,081	601,534
Public Sector entities	8,182	20,221	81,817	202,214
Banks	374,044	337,259	3,740,441	3,372,588
Corporate	2,076,749	1,614,867	20,767,494	16,148,669
Retail	1,164	1,296	11,641	12,956
Residential Mortgages	8,016	7,654	80,163	76,536
Past Due loans	-	-	-	-
Operating Fixed Assets	30,498	31,411	304,984	314,108
Other assets	295,496	571,487	2,954,955	5,714,870
	2,871,157	2,644,348	28,711,576	26,443,475
Market Risk				
<u>Capital Requirement for portfolios subject to Standardized Approach</u>				
Interest rate risk	55,193	38,330	551,931	383,300
Equity position risk				
Foreign Exchange risk	5,293	10,063	52,926	100,625
	60,486	48,393	604,857	483,925
Operational Risk	326,645	323,750	3,266,446	3,237,505
<u>Capital Requirement for operational risks</u>				
TOTAL	3,258,288	3,016,490	32,582,879	30,164,905

Capital Adequacy Ratios	2014		2013	
	Required	Actual	Required	Actual
CET1 to total RWA	5.50%	15.79%	5.00%	17.53%
Tier-1 capital to total RWA	7.00%	15.79%	6.50%	17.53%
Total capital to total RWA	10.00%	16.17%	10.00%	17.73%

38. RISK MANAGEMENT

38.1 Risk Management Framework

The diversity of our business model requires us to identify, measure, aggregate and manage our risks, and to allocate our capital among our businesses. We operate as an integrated group through our 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:

- Core risk management responsibilities are embedded in the Management Board and delegated to senior risk management committees responsible for execution and oversight. The Supervisory Board regularly monitors the risk and capital profile.
- We operate a three-line of defense risk management model whereby front office functions, risk management oversight and assurance roles are played by functions independent of one another.
- Risk strategy is approved by the Management Board on an annual basis and is defined based on the Group Strategic and Capital Plan and Risk Appetite in order to align risk, capital and performance targets.
- Cross-risk analysis reviews are conducted across the Group to validate that sound risk management practices and a holistic awareness of risk exist.
- All major risk classes are managed via risk management processes, including: credit risk, market risk, operational risk, liquidity risk, business risk and reputational risk. Modeling and measurement approaches for quantifying risk and capital demand are implemented across the major risk classes.
- Monitoring, stress testing tools and escalation processes are in place for key capital and liquidity thresholds and metrics.
- Systems, processes and policies are critical components of our risk management capability.
- Recovery planning provides for the escalation path for crisis management governance and supplies Senior Management with a list of actions designed to improve the capital and liquidity positions in a stress event.
- Resolution planning is closely supervised by the BaFin. It provides for a strategy to manage Deutsche Bank in case of default. It is designed to prevent the need for tax payer bailout and strengthen financial stability by the continuation of critical services delivered to the wider economy.

38.1.2 Risk Governance

From a supervisory perspective, our operations throughout the world are regulated and supervised by relevant authorities in each of the jurisdictions in which we conduct business. Such regulation focuses on licensing, capital adequacy, liquidity, risk concentration, conduct of business as well as organization and reporting requirements.

Our Management Board provides overall risk and capital management supervision for the consolidated Group and is exclusively responsible for day-to-day management of the company with the objective of creating sustainable value in the interest of our shareholders, employees and other stakeholders. The Management Board is responsible for defining and implementing business and risk strategies, as well as establishing the alignment of our overall performance with our business and risk strategy. The Management Board has delegated certain functions and responsibilities to relevant senior governance committees to support the fulfillment of these responsibilities, in particular to the Capital and Risk Committee (“CaR”) and Risk Executive Committee (“Risk ExCo”) whose roles are described in more detail below.

Our Chief Risk Officer (“CRO”), who is a member of the Management Board, is responsible for the identification, assessment and reporting of risks arising within operations across all business and all risk types, and has direct management responsibility for the following risk management functions: Credit Risk Management, Market Risk Management, Operational Risk Management and Liquidity Risk Control.

These are established with the mandate to:

- Support that the business within each division is consistent with the risk appetite that the CaR has set within a framework established by the Management Board;
- Formulate and implement risk and capital management policies, procedures and methodologies that are appropriate to the businesses within each division;
- Approve credit, market and liquidity risk limits;
- Conduct periodic portfolio reviews to keep the portfolio of risks within acceptable parameters; and
- Develop and implement risk and capital management infrastructures and systems that are appropriate for each division.

In addition, dedicated regional Chief Risk Officers for Germany, for the Americas and for Asia-Pacific, and divisional Chief Risk Officers for DeAWM and NCOU have been appointed to establish a holistic, risk management coverage. The heads of the aforementioned Furthermore, several teams within the risk management functions cover overarching aspects of risk management. Their mandate is to provide an increased focus on holistic risk management and cross-risk oversight to further enhance our risk portfolio steering. Key objectives are:

- Drive key strategic cross-risk initiatives and establish greater cohesion between defining portfolio strategy and governing execution, including regulatory adherence;
- Provide a strategic and forward-looking perspective on the key risk issues for discussion at senior levels within the bank (risk appetite, stress testing framework);
- Strengthen risk culture in the bank; and
- Foster the implementation of consistent risk management standards.

Our Finance and Group Audit operate independently of both our business divisions and of our Risk function. The role of the Finance department is to help quantify and verify the risk that we assume and maintain the quality and integrity of our risk-related data. Group Audit examines, evaluates and reports on the adequacy of both the design and effectiveness of the systems of internal control including the risk management systems.

38.1.3 *Risk Culture*

We seek to promote a strong risk culture throughout our organization. A strong risk culture is designed to help reinforce our resilience by encouraging a holistic approach to the management of risk and return throughout our organization as well as the effective management of our risk, capital and reputational profile. We actively take risks in connection with our business and as such the following principles underpin risk culture within our group:

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

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

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

To reinforce these expected behaviors and strengthen our risk culture, we conduct a number of group-wide activities. Our Board members and senior management frequently communicate the importance of a strong risk culture to support a consistent tone from the top.

As part of our ongoing efforts to strengthen our risk culture, we review our training suite regularly to develop further modules or enhance existing components.

In addition, along with other measures to strengthen our performance management processes, we have designed and implemented a process to tie formal measurement of risk culture behaviors to our employee performance assessment, promotion and compensation processes. This process has been in place in our CB&S and GTB divisions since 2010 and has subsequently other divisions also.

This process is designed to further strengthen employee accountability.

38.1.4 *Risk Appetite and Capacity*

We use a broad range of quantitative and qualitative methodologies for assessing and managing risks. As a matter of policy, we continually assess the appropriateness and the reliability of our quantitative tools and metrics in light of our changing risk environment. Some of these tools are common to a number of risk categories, while others are tailored to the particular features of specific risk categories. The advanced internal tools and metrics we currently use to measure, manage and report our risks are:

- RWA equivalent.
- Expected loss.
- Return on risk-weighted assets ("RoRWA").
- Value-at-risk.
- Economic capital.

38.1.5 *Stress testing*

We have a strong commitment to stress testing performed on a regular basis in order to assess the impact of a severe economic downturn on our risk profile and financial position. These exercises complement traditional risk measures and represent an integral part of our strategic and capital planning process. Our stress testing framework comprises regular Group-wide stress tests based on internally defined benchmark and more severe macroeconomic global downturn scenarios. Locally we perform testing on quarterly basis as per the BSD Circular # 1 dated May 11, 2012 of State Bank of Pakistan.

38.2 **Risk Inventory**

We face a variety of risks as a result of our 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, we calculate the amount of economic capital from credit, market, operational and business risk to cover risks generated from our business activities taking into account diversification effects across those risk types. Furthermore, our economic capital framework implicitly covers additional risks, e.g. reputational risk and refinancing risk, for which no dedicated EC models exist. Liquidity risk is excluded from the economic capital calculation since it is covered separately.

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.

These transactions are typically part of our traditional nontrading 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, FX forwards and Forward Rate Agreements).

We distinguish between three kinds of credit risk:

- Default risk, the most significant element of credit risk, is the risk that counterparties fail to meet contractual obligations in relation to the claims described above;
- Settlement risk is the risk that the settlement or clearance of a transaction may fail. Settlement risk arises whenever the exchange of cash, securities and/or other assets is not simultaneous leaving us exposed to a potential loss should the counterparty default; and
- 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: a material deterioration of economic conditions, 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.

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. We differentiate between three different types of market risk:

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

Operational Risk

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

Liquidity Risk

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

Business Risk

Business risk describes the risk we assume due to potential changes in general business conditions, such as our market environment, client behavior and technological progress. This can affect our results if we fail to adjust quickly to these changing conditions. At the end of 2012, we introduced an enhanced economic capital model to improve strategic risk modeling being a subcategory of business risk. This model is now used in the monthly EC calculations providing a better link between economic capital and the capital planning process.

Reputational Risk

Within our risk management processes, we define reputational risk as the risk that publicity concerning a transaction, counterparty or business practice involving a client will negatively impact the public's trust in our organization.

Risk Management Program (RRM Program). The RRM Program was established to provide consistent standards for the identification, escalation and resolution of reputational risk issues that arise from transactions with clients or through different business activities. Primary responsibility for the identification, escalation and resolution of reputational risk issues resides with the business divisions. Each employee is under an obligation, within the scope of his/her activities, to analyze and assess any imminent or intended transaction in terms of possible risk factors in order to minimize reputational risks. If a potential reputational risk is identified, it is required to be referred for further consideration at a sufficiently senior level within that respective business division. If issues remain, they should then be escalated for discussion among appropriate senior members of the relevant Business and Control Groups. Reputational risk issues not addressed to satisfactory conclusion through such informal discussions must then be escalated for further review and final determination via the established reputational risk escalation process. As a subcommittee of the Risk ExCo, the Group Reputational Risk Committee ("GRRC") provides review and final determinations on all reputational risk issues and new client adoptions, where escalation of such issues is deemed necessary by senior Business and Regional Management, or required under the Group policies and procedures.

Risk Concentration

Risk concentrations refer to clusters of the same or similar risk drivers within specific risk types (intra-risk concentrations in Credit, Market, Operational risks) as well as across different risk types (inter-risk concentrations). They could occur within and across counterparties, businesses, regions/countries, industries and products. The management of concentrations is integrated as part of the management of individual risk types and monitored on an ongoing basis. The key objective is to avoid any undue concentrations in the portfolio, which is achieved through a quantitative and qualitative approach, as follows:

- Intra-risk concentrations are assessed, monitored and mitigated 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 through quantitative top-down stress-testing and qualitative bottomup 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 is the Cross Risk Review Committee, which is a subcommittee of the Capital and Risk Committee (CaR) and the Risk Executive Committee (Risk ExCo).

Credit Risk

We measure and manage our credit risk using the following philosophy and principles:

- Our credit risk management function is independent from our business divisions and in each of our divisions credit decision standards, processes and principles are consistently applied.
- A key principle of credit risk management is client credit due diligence. Our client selection is achieved in collaboration with our business division counterparts who stand as a first line of defence.
- We aim to prevent undue concentration and tail-risks (large unexpected losses) by maintaining a diversified credit portfolio. Client-, industry-, country- and product-specific concentrations are assessed and managed against our risk appetite.
- We maintain underwriting standards aiming to avoid large directional credit risk on a counterparty and portfolio level. In this regard we assume unsecured cash positions and actively use hedging for risk mitigation purposes. Additionally, we strive to secure our derivative portfolio through collateral agreements and may additionally hedge concentration risks to further mitigate credit risks from underlying market movements.
- Every new credit facility and every extension or material change of an existing credit facility (such as its tenor, collateral structure or major covenants) to any counterparty requires credit approval at the appropriate authority level. We assign credit approval authorities to individuals according to their qualifications, experience and training, and we review these periodically.
- We measure and consolidate all our credit exposures to each obligor across our consolidated Group on a global basis that applies, in line with regulatory requirements.
- We manage credit exposures on the basis of the “one obligor principle”, under which all facilities to a group of borrowers which are linked to each other (i.e., by one entity holding a majority of the voting rights or capital of another) are consolidated under one group.
- We have established within Credit Risk Management – where appropriate – specialized teams for deriving internal client ratings, analyzing and approving transactions, monitoring the portfolio or covering workout clients. The credit coverage for assets transferred to the NCOU utilizes the expertise of our core credit organization.
- Our credit related activities are governed by our Principles for Managing Credit Risk. These principles define our general risk philosophy for credit risk and our methods to manage this risk. The principles define key organizational requirements, roles and responsibilities as well as process principles for credit risk management and are applicable to all credit related activities undertaken by us.

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 26-grade rating scale for evaluating the credit-worthiness of our counterparties. The majority of our rating methodologies are authorized for use within the advanced internal rating based approach under applicable Basel rules. Our rating scale enables us to compare our internal ratings with common market practice and promotes comparability between different sub-portfolios of our institution. Several default ratings therein enable us to incorporate the potential recovery rate of unsecured defaulted counterparty exposures. We generally rate our counterparties individually, though certain portfolios of purchased or securitized receivables are rated on a pool basis. Ratings are required to be kept up-to-date and documented.

The algorithms of the rating procedures for all counterparties are recalibrated frequently on the basis of the default history as well as other external and internal factors and expert judgments.

Credit Approval and Authority

Credit limits are established by the Credit Risk Management function via the execution of assigned credit authorities. Credit approvals are documented by the signing of the credit report by the respective credit authority holders and retained for future reference.

Credit authority is generally assigned to individuals as personal credit authority according to the individual's professional qualification and experience. All assigned credit authorities are reviewed on a periodic basis to help ensure that they are adequate to the individual performance of the authority holder. The results of the review are presented to the Group Credit Policy Committee.

Where an individual's personal authority is insufficient to establish required credit limits, the transaction is referred to a higher credit authority holder or where necessary to an appropriate credit committee such as the Underwriting Committee. Where personal and committee authorities are insufficient to establish appropriate limits, the case is referred to the Management Board for approval.

Local Credit Forum

Monitoring Credit Risk

Ongoing active monitoring and management of Deutsche Bank's 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.

Our portfolio management framework supports a comprehensive assessment of concentrations within our credit risk portfolio in order to keep concentrations within acceptable levels.

Credit Exposures

Counterparty credit exposure arises from our traditional nontrading lending activities which include elements such as loans and contingent liabilities, as well as from our direct trading activity with clients in certain instruments including OTC derivatives like FX forwards and Forward Rate Agreements. A default risk also arises from our positions in equity products and traded credit products such as bonds.

We define our credit exposure by taking into account all transactions where losses might occur due to the fact that counterparties may not fulfil their contractual payment obligations.

38.4.5 Segmental information

Segmental Information is presented in respect of the class of business and geographical distribution of Advances, Deposits, Contingencies and Commitments.

38.4.5.1 Segments by class of business

	2014					
	Advances (gross)		Deposits		Contingencies and commitments	
	(Rupees in '000)	(Percent)	(Rupees in '000)	(Percent)	(Rupees in '000)	(Percent)
Textile	563,662	8.00	23,489	0.19	208,157	0.93
Chemical and pharmaceuticals	1,668,988	23.73	2,688,030	21.22	409,120	1.82
Cement	46,939	0.67	1,270	0.01	17,739	0.08
Oil & Petroleum	-	-	-	-	-	-
Footwear and Leather garments	-	-	483	-	-	-
Automobile and transportation equipment	-	-	6,533	0.05	25,650	0.11
Electronics and electrical appliances	129,803	1.85	116,545	0.92	1,818,946	8.09
Construction	-	-	92,588	0.73	-	-
Power (electricity), gas, oil water and sanitary	251,058	3.57	733,015	5.79	12,142	0.05
Transport, storage and communication	-	-	1,924,297	15.20	-	-
Financial	-	-	9,226	0.07	16,974,191	75.47
Misc. manufacturing industries	-	-	-	-	-	-
Insurance	-	-	26	-	-	-
Individuals	244,558	3.48	204,689	1.62	-	-
Others	4,128,868	58.70	6,863,346	54.20	3,024,830	13.45
	7,033,876	100.00	12,663,537	100.00	22,490,775	100.00

	2013					
	Advances (gross)		Deposits		Contingencies and commitments	
	(Rupees in '000)	(Percent)	(Rupees in '000)	(Percent)	(Rupees in '000)	(Percent)
Textile	531,650	11.41	12,541	0.08	16,483	0.08
Chemical and pharmaceuticals	698,636	15.00	3,371,662	21.27	463,570	2.23
Cement	-	-	1,922	0.01	238,993	1.15
Oil & Petroleum	360,477	7.74	197,504	1.25	-	-
Footwear and Leather garments	-	-	5	-	-	-
Automobile and transportation equipment	-	-	41,681	0.27	54,291	0.26
Electronics and electrical appliances	108,973	2.34	218,847	1.38	1,738,073	8.35
Construction	-	-	3,886	0.02	-	-
Power (electricity), Gas, Oil Water and Sanitary	261,058	5.60	-	-	-	-
Transport, Storage and Communication	-	-	5,661,098	35.72	-	-
Financial	-	-	8,187	0.05	15,675,542	75.33
Misc. manufacturing industries	840,139	18.04	2,666,718	16.83	734,804	3.53
Insurance	-	-	3	-	-	-
Individuals	235,949	5.07	463,344	2.92	-	-
Others	1,620,796	34.80	3,201,733	20.20	1,887,360	9.07
	4,657,678	100.00	15,849,131	100.00	20,809,116	100.00

38.4.5.2 Segments by sector

	2014					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	(Rupees in '000)	(Percent)	(Rupees in '000)	(Percent)	(Rupees in '000)	(Percent)
Public / Government	337,273	4.79	14,214	0.11	-	-
Private	6,696,603	95.21	12,649,323	99.89	22,490,775	100.00
	7,033,876	100.00	12,663,537	100.00	22,490,775	100.00
	2013					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	(Rupees in '000)	(Percent)	(Rupees in '000)	(Percent)	(Rupees in '000)	(Percent)
Public/ Government	360,477	7.74	1,144	0.01	-	-
Private	4,297,201	92.26	15,847,987	99.99	20,809,116	100.00
	4,657,678	100.00	15,849,131	100.00	20,809,116	100.00

38.4.5.3 Details of non-performing advances and specific provisions by class of business segment

	2014		2013	
	Classified advances	Specific provision held	Classified advances	Specific provision held
	----- (Rupees in '000) -----			
Textile	96,511	96,511	96,511	96,511
Power(electricity),gas, oil water and sanitary	251,059	251,059	261,059	261,059
Electronics and electrical appliances	-	-	-	-
	347,570	347,570	357,570	357,570

38.4.5.4 Details of non-performing advances and specific provisions by sector

	2014		2013	
	Classified advances	Specific provision held	Classified advances	Specific provision held
	----- (Rupees in '000) -----			
Public / Government	-	-	-	-
Private	347,570	347,570	357,570	357,570
	347,570	347,570	357,570	357,570

38.4.5.5 Geographical Segment Analysis

These financial statements represent operations of Pakistan branches only and all assets and liabilities represents transactions entered by Pakistan branches.

38.5 Market risk

The vast majority of our businesses are subject to market risk, defined as the potential for change in the market value of our trading and investing positions. Risk can arise from adverse changes in interest rates, credit spreads, foreign exchange rates, equity prices, commodity prices and other relevant parameters, such as market volatility and market implied default probabilities.

The primary objective of Market Risk Management, a part of our independent Risk function, is to ensure that our business units optimize the risk-reward relationship and do not expose us to unacceptable losses outside of our risk appetite. To achieve this objective, Market Risk Management works closely together with risk takers ("the business units") and other control and support groups.

Trading Market Risk Management Framework

Market Risk Management governance is designed and established to ensure oversight of all market risks, including trading market risk, traded default risk and nontrading market risk, effective decision-making and timely escalation to senior management.

Market Risk Management defines and implements a framework to systematically identify, assess, monitor and report our market risk and supports management and mitigation. Market risk managers identify existing and potential future market risks through active portfolio analysis and engagement with the business areas.

Market Risk Measurement and Assessment

Market Risk Management aims to accurately measure all types of market risks by a comprehensive set of risk metrics reflecting economic and regulatory requirements.

In accordance with economic and regulatory requirements, we measure market and related risks by several key risk metrics.

These measures are viewed as complementary to each other and in aggregate define the market risk framework, by which all businesses can be measured and monitored.

Market Risk Monitoring

Our primary instrument to manage trading market risk is the application of our limit framework. Our Management Board supported by Market Risk Management, sets group-wide value-at-risk, economic capital and portfolio stress testing (extreme) limits for market risk in the trading book. Market Risk Management suballocates this overall limit to our Corporate Divisions and individual business units within CB&S (i.e., Global Rates and Credit, Equity, etc.) based on anticipated business plans and risk appetite. Within the individual business units, the business heads establish business limits, by allocating the limit down to individual portfolios or geographical regions.

To manage the exposures inside the limits, the business units apply several risk mitigating measures, most notably the use of:

— Portfolio management: Risk diversification arises in portfolios which consist of a variety of positions. Since some investments are likely to rise in value when others decline, diversification can help to lower the overall level of risk profile of a portfolio.

— Hedging: Hedging involves taking positions in related financial assets, such as futures and swaps, and includes derivative products, such as futures, swaps and options. Hedging activities may not always provide effective mitigation against losses due to differences in the terms, specific characteristics or other basis risks that may exist between the hedge instrument and the exposure being hedged.

38.5.2 Non trading Market Risk Management

Non trading Market Risk Management oversees a number of risk exposures resulting from various business activities and initiatives.

DB Pakistan has adopted standardized approach for market risk which is approved regulatory approach.

38.5.3 Foreign exchange risk

At a local level, we ensure the overall foreign exchange exposure of Pakistan Operations remains within the limits set by SBP. We do not take any currency exposure except to the extent of the Statutory Net Open Position Limit prescribed by SBP.

Internal limits are in place to monitor Foreign Exchange open and mismatched positions on a daily basis and are marked-to-market daily to contain forward exposures to meet regulatory compliance issued periodically.

The vast majority of the interest rate and foreign exchange risks arising from our non-trading asset and liability positions are transferred through internal trades to our Global Markets within our Corporate Banking and Securities Group Division and are thus managed on the basis of value-at-risk.

	2014				2013			
	Assets	Liabilities and head office capital account	Off-balance sheet items	Net foreign currency exposure	Assets	Liabilities and head office capital account	Off-balance sheet items	Net foreign currency exposure
	----- (Rupees in '000) -----							
Pakistan rupee	16,399,561	16,417,741	(33,277)	(51,457)	22,678,980	18,592,331	(4,170,708)	(84,059)
United States dollar	1,345,749	714,969	(579,245)	51,535	440,761	4,289,666	3,948,719	99,814
Great Britain pound	16,690	17,670	-	(979)	18,775	18,473	-	302
Japanese yen	-	1,241	1,268	27	257	-	-	257
Euro	3,944,199	4,555,944	611,254	(491)	4,664,976	4,903,276	222,045	(16,255)
Other currencies	1,365	0	-	1,365	252	255	(56)	(59)
	<u>21,707,565</u>	<u>21,707,565</u>	<u>0</u>	<u>0</u>	<u>27,804,001</u>	<u>27,804,001</u>	<u>-</u>	<u>-</u>

38.5.4 Mismatch of interest rate sensitive assets and liabilities

2014

Effective yield/ interest rate	Total	Exposed to yield / interest risk									Non-interest bearing financial instruments	
		Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years		
------(Rupees in '000)-----												
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	0.0%	5,523,757	280,850	-	-	-	-	-	-	-	-	5,242,907
Balances with other banks	0.0%	492,331	-	-	-	-	-	-	-	-	-	492,331
Lending to financial institutions	9.7%	6,312,559	6,312,559	-	-	-	-	-	-	-	-	-
Investments	10.7%	842,929	-	4,216	-	-	-	-	-	838,713	-	-
Advances	9.5%	6,603,070	1,661,864	2,900,680	1,081,331	718,404	3,943	2,395	36,131	24,349	173,973	-
Other assets	0.0%	697,227	-	-	-	-	-	-	-	-	-	697,227
		<u>20,471,873</u>	<u>8,255,273</u>	<u>2,904,896</u>	<u>1,081,331</u>	<u>718,404</u>	<u>3,943</u>	<u>2,395</u>	<u>36,131</u>	<u>863,062</u>	<u>173,973</u>	<u>6,432,465</u>
Liabilities												
Bills payable	0.0%	629,787	-	-	-	-	-	-	-	-	-	629,787
Borrowings from financial institutions	8.7%	860,407	-	230,000	-	-	-	-	-	-	-	630,407
Deposits and other accounts	8.0%	12,663,537	5,103,477	2,366,428	700,312	475,762	-	-	-	-	-	4,017,558
Other liabilities	0.0%	2,180,727	-	-	-	-	-	-	-	-	-	2,180,727
		<u>16,334,458</u>	<u>5,103,477</u>	<u>2,596,428</u>	<u>700,312</u>	<u>475,762</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,458,479</u>
On-balance sheet gap		<u>4,137,415</u>	<u>3,151,796</u>	<u>308,468</u>	<u>381,019</u>	<u>242,642</u>	<u>3,943</u>	<u>2,395</u>	<u>36,131</u>	<u>863,062</u>	<u>173,973</u>	<u>(1,026,014)</u>
Off-balance sheet financial instruments*												
Forward Purchase Contracts		18,705,588	7,041,076	5,310,303	6,354,209	-	-	-	-	-	-	-
Forward Sales Contracts		(18,673,952)	(5,388,216)	(7,848,968)	(5,436,768)	-	-	-	-	-	-	-
Cross currency swaps (notional)		-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet gap		<u>31,636</u>	<u>1,652,860</u>	<u>(2,538,665)</u>	<u>917,441</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Yield / Interest Risk Sensitivity Gap			<u>4,804,656</u>	<u>(2,230,197)</u>	<u>1,298,460</u>	<u>242,642</u>	<u>3,943</u>	<u>2,395</u>	<u>36,131</u>	<u>863,062</u>	<u>173,973</u>	
Cumulative Yield / Interest Risk Sensitivity Gap			<u>4,804,656</u>	<u>2,574,459</u>	<u>3,872,919</u>	<u>4,115,561</u>	<u>4,119,504</u>	<u>4,121,899</u>	<u>4,158,030</u>	<u>5,021,092</u>	<u>5,195,065</u>	

*Excludes interest rate swaps, currency options and forward rate agreement.

2013

Effective yield/ interest rate	Total	Exposed to yield / interest risk									Non-interest bearing financial instruments	
		Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years		
------(Rupees in '000)-----												
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	0.0%	6,193,227	294,382	-	-	-	-	-	-	-	-	5,898,845
Balances with other banks	0.0%	208,293	-	-	-	-	-	-	-	-	-	208,293
Lending to financial institutions	8.9%	9,757,121	9,757,121	-	-	-	-	-	-	-	-	-
Investments	10.1%	5,428,718	767,106	4,661,612	-	-	-	-	-	-	-	-
Advances	8.8%	4,265,335	938,598	1,827,686	762,876	505,482	4,728	3,688	37,857	35,175	149,245	-
Other assets	-	612,405	-	-	-	-	-	-	-	-	-	612,405
		26,465,099	11,757,207	6,489,298	762,876	505,482	4,728	3,688	37,857	35,175	149,245	6,719,543
Liabilities												
Bills payable	0.0%	324,717	-	-	-	-	-	-	-	-	-	324,717
Borrowings from financial institutions	8.6%	4,004,649	-	430,000	-	-	-	-	-	-	-	3,574,649
Deposits and other accounts	6.6%	15,849,131	7,628,598	4,268,129	459,355	314,327	-	-	-	-	-	3,178,722
Other liabilities	0.0%	2,173,922	-	-	-	-	-	-	-	-	-	2,173,922
		22,352,419	7,628,598	4,698,129	459,355	314,327	-	-	-	-	-	9,252,010
On-balance sheet gap		4,112,680	4,128,609	1,791,169	303,521	191,155	4,728	3,688	37,857	35,175	149,245	(2,532,467)
Off-balance sheet financial instruments*												
Forward Purchase Contracts		22,289,015	13,157,547	6,622,001	2,509,467	-	-	-	-	-	-	-
Forward Sales Contracts		(18,102,073)	(5,357,963)	(9,927,297)	(2,816,813)	-	-	-	-	-	-	-
Cross currency swaps (notional)		-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet gap		4,186,942	7,799,584	(3,305,296)	(307,346)	-	-	-	-	-	-	-
Total Yield / Interest Risk Sensitivity Gap			11,928,193	(1,514,127)	(3,825)	191,155	4,728	3,688	37,857	35,175	149,245	
Cumulative Yield / Interest Risk Sensitivity Gap			11,928,193	10,414,066	10,410,241	10,601,396	10,606,124	10,609,812	10,647,669	10,682,844	10,832,089	

38.6 Liquidity risk

Liquidity risk management safeguards our ability to meet all payment obligations when they come due. Our liquidity risk management framework has been an important factor in maintaining adequate liquidity and in managing our funding profile.

38.6.1 Liquidity Risk Management Framework

The Management Board defines our liquidity risk strategy, and in particular our tolerance for liquidity risk based on recommendations made by Treasury and the Capital and Risk Committee. The Management Board review and approve the limits which are applied to the Group to measure and control liquidity risk as well as the Bank's long-term funding and issuance plan.

Our Treasury function is responsible for the management of liquidity and funding risk of Deutsche Bank globally as defined in the liquidity risk strategy. Our liquidity risk management framework is designed to identify, measure and manage the liquidity risk position of the Group. Treasury reports the Bank's overall liquidity and funding to the Management Board at least weekly via a Liquidity Scorecard. Our liquidity risk management approach starts at the intraday level (operational liquidity) managing the daily payments queue, forecasting cash flows and factoring in our access to Central Banks. It then covers tactical liquidity risk management dealing with access to secured and unsecured funding sources. Finally, the strategic perspective comprises the maturity profile of all assets and liabilities (Funding Matrix) and our issuance strategy.

Our cash-flow based reporting system provides daily liquidity risk information to global and regional management.

Stress testing and scenario analysis plays a central role in our liquidity risk management framework. This also incorporates an assessment of asset liquidity, i.e. the characteristics of our asset inventory, under various stress scenarios as well as contingent funding requirements from off-balance-sheet commitments. The monthly stress testing results are used in setting our short-term wholesale funding limits (both unsecured and secured) and thereby ensuring we remain within the Board's overall liquidity risk tolerance.

Being DB's EMEA hub, Treasury & Capital Management (TCM) team in EMEA oversees the liquidity risk and capital management for the whole of EMEA.

Currently, there is one Treasurer and one Treasury analyst who manage day to day liquidity risk and capital management for Pakistan. Liquidity risk management is supported by a web-based system, dbCube, which helps liquidity and capital managers of TCM to monitor the liquidity situation of any DB entity at any location any time. All liquidity risk and capital related issues for DB branches in Pakistan are discussed by the local Asset and Liability Committee (ALCO), chaired by the treasurer, and comprising all businesses and supporting functions, i.e. Finance and Compliance. The local ALCO provides a forum for managing the liquidity, capital and funding positions of the local entity to meet regulatory compliance. Meetings of the local ALCO are held on a regular basis with ad-hoc meetings called when required.

2013

	2013									
	Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
----- (Rupees in '000) -----										
Assets										
Cash and balances with treasury banks	6,193,227	294,115	441,172	484,945	323,296	-	-	-	-	4,649,699
Balances with other banks	208,293	82,201	123,302	1,674	1,116	-	-	-	-	-
Lending to financial institutions	9,757,121	9,757,121	-	-	-	-	-	-	-	-
Investments	5,428,718	767,106	4,661,612	-	-	-	-	-	-	-
Advances	4,265,335	938,598	1,827,686	762,876	505,482	4,728	3,688	37,857	35,175	149,245
Operating fixed assets	314,108	-	-	-	-	-	-	314,108	-	-
Deferred tax assets	74,492	-	-	-	-	74,492	-	-	-	-
Other assets	1,562,707	256,299	387,919	22,299	45,866	833,945	10,961	2,823	1,539	1,056
	27,804,001	12,095,440	7,441,691	1,271,794	875,760	913,165	14,649	354,788	36,714	4,800,000
Liabilities										
Bills payable	324,717	68,478	102,576	92,198	61,465	-	-	-	-	-
Borrowings from financial institutions	4,004,649	1,426,906	2,570,358	4,431	2,954	-	-	-	-	-
Deposits and other accounts	15,849,131	8,053,910	4,905,994	1,728,682	1,160,545	-	-	-	-	-
Other liabilities	2,338,895	442,160	689,451	-	1,164,309	42,975	-	-	-	-
	22,517,392	9,991,454	8,268,379	1,825,311	2,389,273	42,975	-	-	-	-
Net assets	5,286,609	2,103,986	(826,688)	(553,517)	(1,513,513)	870,190	14,649	354,788	36,714	4,800,000
Head office capital account	4,649,699									
Reserves	-									
Un-remitted profit	638,687									
Deficit on revaluation of assets	(1,777)									
	<u>5,286,609</u>									

As per the BSD Circular Letter No. 03 of 2011, issued by SBP, assets and liabilities with stated maturities are reported as per their remaining maturities, whereas, assets and liabilities which do not have any contractual maturities are reported as per their "expected maturities" calculated on the basis of an objective and systematic behavioural study approved by ALCO committee. For the methodology of the non contractual items, we use daily balances from the ledger for the last three years, calculate minimum average balances thereof and applying the applicable bucket rates.

38.7 Maturities of assets and liabilities

2014

Total	Over 1	Over 3	Over 6	Over 1	Over 2	Over 3	Over 5	Above 10 years
	Upto 1	to 3	to 6	months to 1	to 2	to 3	to 5	
	month	months	months	year	years	years	years	

(Rupees in '000)

Assets

Cash and balances with treasury banks	5,523,757	1,609,698	-	-	-	-	-	-	3,914,059
Balances with other banks	492,331	492,331	-	-	-	-	-	-	-
Lending to financial institutions	6,312,559	6,312,559	-	-	-	-	-	-	-
Investments	842,929	-	4,216	-	-	-	-	838,713	-
Advances	6,603,070	5,032,616	1,318,280	8,320	3,063	3,943	2,395	36,131	24,349
Operating fixed assets	304,984	-	-	-	-	-	-	304,984	-
Deferred tax assets	61,130	-	-	-	-	61,130	-	-	-
Other assets	1,566,805	713,977	20,717	18,431	19,330	789,610	1,373	1,950	962
	21,707,565	14,161,181	1,343,213	26,751	22,393	854,683	3,768	343,065	864,024
									4,088,487

Liabilities

Bills payable	629,787	629,787	-	-	-	-	-	-	-
Borrowings from financial institutions	860,407	630,407	230,000	-	-	-	-	-	-
Deposits and other accounts	12,663,537	12,593,857	48,581	7,327	13,772	-	-	-	-
Other liabilities	2,390,873	989,950	-	-	1,361,674	39,249	-	-	-
	16,544,604	14,844,001	278,581	7,327	1,375,446	39,249	-	-	-

Net assets	5,162,961	(682,819)	1,064,632	19,424	(1,353,052)	815,434	3,768	343,065	864,024	4,088,487
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Head office capital account	3,914,059
Reserves	-
Un-remitted profit	1,232,065
Deficit on revaluation of assets	16,837
	<u>5,162,961</u>

2013

Total	Over 1	Over 3	Over 6	Over 1	Over 2	Over 3	Over 5		
	Upto 1	to 3	to 6	months to 1	to 2	to 3	to 5	to 10	Above
	month	months	months	year	years	years	years	years	10 years

(Rupees in '000)

Assets

Cash and balances with treasury banks	6,193,227	1,543,528	-	-	-	-	-	-	-	4,649,699
Balances with other banks	208,293	208,293	-	-	-	-	-	-	-	-
Lending to financial institutions	9,757,121	9,757,121	-	-	-	-	-	-	-	-
Investments	5,428,718	767,106	4,661,612	-	-	-	-	-	-	-
Advances	4,265,335	3,306,772	711,842	11,478	4,550	4,728	3,688	37,857	35,175	149,245
Operating fixed assets	314,108	-	-	-	-	-	-	314,108	-	-
Deferred tax assets	74,492	-	-	-	-	74,492	-	-	-	-
Other assets	1,562,707	628,314	15,904	22,299	45,866	833,945	10,961	2,823	1,539	1,056
	27,804,001	16,211,134	5,389,358	33,777	50,416	913,165	14,649	354,788	36,714	4,800,000

Liabilities

Bills payable	324,717	324,717	-	-	-	-	-	-	-	-
Borrowings from financial institutions	4,004,649	3,574,649	430,000	-	-	-	-	-	-	-
Deposits and other accounts	15,849,131	15,094,403	732,131	8,704	13,893	-	-	-	-	-
Other liabilities	2,338,895	1,105,400	26,211	-	1,164,309	42,975	-	-	-	-
	22,517,392	20,099,169	1,188,342	8,704	1,178,202	42,975	-	-	-	-

Net assets	5,286,609	(3,888,035)	4,201,016	25,073	(1,127,786)	870,190	14,649	354,788	36,714	4,800,000
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Head office capital account	4,649,699
Reserves	-
Un-remitted profit	638,687
Deficit on revaluation of assets	(1,777)
	5,286,609

The assets and liabilities with stated maturities are reported as per their remaining maturities, whereas, assets and liabilities which do not have any contractual maturities have been reported into up to one month.

38.8 Operational risk

Operational risk means the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and includes legal risk. Operational risk excludes business and reputational risk. Particular prominent examples of operational risks are Fraud Risk ,Business Continuity Risk ,Regulatory Compliance Risk, Information Technology Risk and Vendor Risk .

Legal Risk may materialize in any of the above risk categories. This may be due to the fact that in each category 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 law or legal circumstances applicable to any of the above categories.

38.8.1 Organizational Structure

The Head of Operational Risk & Business Continuity Management chairs the Operational Risk Management Committee, which is a permanent sub-committee of the Risk Executive Committee and is composed of the operational risk officers from our business divisions and our infrastructure functions. It is the main decision-making committee for all operational risk management matters.

While the day-to-day operational risk management lies with our business divisions and infrastructure functions, the Operational Risk & Business Continuity Management function manages the cross divisional and cross regional operational risk as well as risk concentrations and ensures a consistent application of our operational risk management strategy across the bank. Based on this Business Partnership Model we ensure close monitoring and high awareness of operational risk.

38.8.2 Managing Our Operational Risk

We manage operational risk based on a Group-wide consistent framework that enables us to determine our operational risk profile in comparison to our risk appetite and systematically identify operational risk themes and concentrations to define risk mitigating measures and priorities.

Based on the organizational set-up, the governance and systems in place to identify and manage the operational risk and the support of control functions responsible for specific operational risk types (e.g. Compliance, Corporate Security & Business Continuity Management) we seek to optimize the management of operational risk. Future operational risks (identified through forward-looking analysis) are managed via mitigation strategies such as the development of back-up systems and emergency plans. We buy insurance in order to protect ourselves against unexpected and substantial unforeseeable losses.

For purpose of complying with local Basel III regulatory requirements in Pakistan, we follow the implementation guidelines ('Implementation of Basel III') issued by State Bank of Pakistan.

As required by State Bank of Pakistan regulations, DB in Pakistan employs the Basic Indicator Approach (BIA) for 2014.

39. GENERAL

39.1 Standards, interpretations and amendments to published approved accounting standards that are not yet effective

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after 01 January 2015: effective for accounting periods beginning on or after 1 January 2014:

- Amendments to IAS 19 "Employee Benefits" Employee contributions - a practical approach (effective for annual periods beginning on or after 1 July 2014). The practical expedient addresses an issue that arose when amendments were made in 2011 to the previous pension accounting requirements. The amendments introduce a relief that will reduce the complexity and

burden of accounting for certain contributions from employees or third parties. The amendments are relevant only to defined benefit plans that involve contributions from employees or third parties meeting certain criteria.

- Amendments to IAS 38 Intangible Assets and IAS 16 Property, Plant and Equipment (effective for annual periods beginning on or after 1 January 2016) introduce severe restrictions on the use of revenue-based amortization for intangible assets and explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. The rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue. The amendments are not likely to have an impact on Company's financial statements.
- IFRS 10 'Consolidated Financial Statements' - (effective for annual periods beginning on or after 1 January 2015) replaces the part of IAS 27 'Consolidated and Separate Financial Statements'. IFRS 10 introduces a new approach to determining which investees should be consolidated. The single model to be applied in the control analysis requires that an investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. IFRS 10 has made consequential changes to IAS 27 which is now called 'Separate Financial Statements' and will deal with only separate financial statements. Certain further amendments have been made to IFRS 10, IFRS 12 and IAS 28 clarifying the requirements relating to accounting for investment entities and would be effective for annual periods beginning on or after 1 January 2016 {The adoption of above standard would result in consolidation of certain mutual funds managed by Company's/ Bank's subsidiary. This would have an impact of increase in total assets and total liabilities as at 31 December 2014 and profit for the year of Rs. , Rs. and Rs. respectively }{The effect wording may suitably be changed once they are known}.
- IFRS 11 'Joint Arrangements' (effective for annual periods beginning on or after 1 January 2015) replaces IAS 31 'Interests in Joint Ventures'. Firstly, it carves out, from IAS 31 jointly controlled entities, those cases in which although there is a separate vehicle, that separation is ineffective in certain ways. These arrangements are treated similarly to jointly controlled assets/operations under IAS 31 and are now called joint operations. Secondly, the remainder of IAS 31 jointly controlled entities, now called joint ventures, are stripped of the free choice of using the equity method or proportionate consolidation; they must now always use the equity method. IFRS 11 has also made consequential changes in IAS 28 which has now been named 'Investment in Associates and Joint Ventures'. The amendments requiring business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business are effective for annual periods beginning on or after 1 January 2016. The adoption of this standard is not like to have an impact on Company's financial statements. {change where necessary}
- IFRS 12 'Disclosure of Interest in Other Entities' (effective for annual periods beginning on or after 1 January 2015) combines the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities, into one place. The adoption of this standard is not like to have an impact on Company's financial statements. {change where necessary}
- IFRS 13 'Fair Value Measurement' effective for annual periods beginning on or after 1 January 2015) defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 explains how to measure fair value when it is required by other IFRSs. It does not introduce new fair value measurements, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. The adoption of this standard is not like to have an impact on Company's financial statements. {change where necessary}
- Amendment to IAS 27 'Separate Financial Statement' (effective for annual periods beginning

on or after 1 January 2016). The amendments to IAS 27 will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

- Agriculture: Bearer Plants [Amendment to IAS 16 and IAS 41] (effective for annual periods beginning on or after 1 January 2016). Bearer plants are now in the scope of IAS 16 Property, Plant and Equipment for measurement and disclosure purposes. Therefore, a company can elect to measure bearer plants at cost. However, the produce growing on bearer plants will continue to be measured at fair value less costs to sell under IAS 41 Agriculture. A bearer plant is a plant that: is used in the supply of agricultural produce; is expected to bear produce for more than one period; and has a remote likelihood of being sold as agricultural produce. Before maturity, bearer plants are accounted for in the same way as self-constructed items of property, plant and equipment during construction.
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) [effective for annual periods beginning on or after 1 January 2016]. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.
- Annual Improvements 2010-2012 and 2011-2013 cycles (most amendments will apply prospectively for annual period beginning on or after 1 July 2014). The new cycle of improvements contain amendments to the following standards:
 - IFRS 2 'Share-based Payment'. IFRS 2 has been amended to clarify the definition of 'vesting condition' by separately defining 'performance condition' and 'service condition'.
 - IFRS 3 'Business Combinations'. These amendments clarify the classification and measurement of contingent consideration in a business combination.
 - IFRS 8 'Operating Segments' has been amended to explicitly require the disclosure of judgments made by management in applying the aggregation criteria.
 - Amendments to IAS 16 'Property, plant and equipment' and IAS 38 'Intangible Assets'. The amendments clarify the requirements of the revaluation model in IAS 16 and IAS 38, recognizing that the restatement of accumulated depreciation (amortization) is not always proportionate to the change in the gross carrying amount of the asset.
 - IAS 24 'Related Party Disclosure'. The definition of related party is extended to include a management entity that provides key management personnel services to the reporting entity, either directly or through a group entity.
 - IAS 40 'Investment Property'. IAS 40 has been amended to clarify that an entity should: assess whether an acquired property is an investment property under IAS 40 and perform a separate assessment under IFRS 3 to determine whether the acquisition of the investment property constitutes a business combination.
- Annual Improvements 2012-2014 cycles (amendments are effective for annual periods beginning on or after 1 January 2016). The new cycle of improvements contain amendments to the following standards:
 - IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. IFRS 5 is amended to clarify that if an entity changes the method of disposal of an asset (or disposal group) i.e. reclassifies an asset from held for distribution to owners to held for sale or vice versa without any time lag, then such change in classification is considered as continuation of the original plan of disposal and if an entity determines that an asset (or disposal group) no longer meets the criteria to be classified as held for distribution, then it ceases held for

distribution accounting in the same way as it would cease held for sale accounting.

- IFRS 7 'Financial Instruments- Disclosures'. IFRS 7 is amended to clarify when servicing arrangements are in the scope of its disclosure requirements on continuing involvement in transferred financial assets in cases when they are derecognized in their entirety. IFRS 7 is also amended to clarify that additional disclosures required by 'Disclosures: Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS7)' are not specifically required for inclusion in condensed interim financial statements for all interim periods.
- IAS 19 'Employee Benefits'. IAS 19 is amended to clarify that high quality corporate bonds or government bonds used in determining the discount rate should be issued in the same currency in which the benefits are to be paid.
- IAS 34 'Interim Financial Reporting'. IAS 34 is amended to clarify that certain disclosures, if they are not included in the notes to interim financial statements and disclosed elsewhere should be cross referred.

40. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorized for issue on March 19, 2015.

41. GENERAL

41.1 Figures have been rounded off to the nearest thousand rupees unless otherwise stated.

41.2 Captions as prescribed in BSD circular No. 4 dated 17 February 2006 issued by SBP in respect of which no amounts are outstanding have not been reproduced in these financial statements except for in the statement of financial position and the profit and loss account.

Ahmer Hasan
Managing Director /
Chief Country Officer
Pakistan

Mahmood A. Qureshi
Chief Operating Officer
& Chief Financial Officer
Pakistan