Deutsche Bank International Limited

Financial statements

31 December 2012

Deutsche Bank International Limited

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Deutsche Bank International Limited

Directors:	A J Dessain, Chairman (appointed 11th October 2012) M R Bisson E M Fletcher (resigned 17th September 2012) K W Johnson (resigned 29th June 2012) K B Prasanna P E Shevlin R B Singleton A J Tautscher L Warner M G Whelan (appointed 1 January 2013)
Secretary:	G S Clark
Independent auditors:	KPMG Channel Islands Limited Chartered Accountants 37 Esplanade St Helier Jersey Channel Islands
Registered Office:	St Paul's Gate New Street St Helier Jersey Channel Islands

Deutsche Bank International Limited

Directors' report

The directors submit their report and the audited financial statements for the year ended 31 December 2012.

Principal activities

Deutsche Bank International Limited (the "Company") is a wholly owned subsidiary of Deutsche Holdings (Malta) Limited, itself part of the larger Deutsche Bank Group, and provides international banking, trust, corporate and investment management services on a world-wide basis to clients including private individuals, corporations, governments, financial institutions and investors.

Results and dividend

The total comprehensive income for the year ended 31 December 2012 is shown in the statement of comprehensive income on page 7.

No dividends were declared during the year (2011 GBP Nil).

Directors

The directors of the Company who served during the year and up to the date the financial statements were approved are as stated on page 1, with the following exceptions:

A J Dessain was appointed non-executive director and Chairman on 11[th] October 2012.

M G Whelan was appointed director on 1st January 2013.

E M Fletcher resigned as director on 17th September 2012.

K W Johnson resigned as director on 29[th] June 2012.

Independent Auditors

KPMG Channel Islands Limited was re-appointed as auditors on 31[st] May 2012. They have expressed their willingness to continue in office.

By order of the board

22 March
2013

Deutsche Bank International Limited

Statement of Directors' responsibilities

The directors are responsible for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards.

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis (unless it is inappropriate to presume that the Company will continue in business).

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991, the Banking Business (Jersey) Law 1991, the Financial Services (Trust Company and Investment Business (Accounts, Audit, and Reports)) (Jersey) Order 2007 and the Financial Services (Fund Services Business (Accounts, Audits and Reports)) (Jersey) Order 2007. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

KPMG

KPMG Channel Islands Limited
37 Esplanade
St Helier
Jersey JE4 8WQ
Channel Islands

Independent auditor's report to the members of Deutsche Bank International Limited

We have audited the financial statements of Deutsche Bank International Limited for the year ended 31 December 2012 which comprise the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards.

This report is made solely to the company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

KPMG

KPMG Channel Islands Limited
37 Esplanade
St Helier
Jersey JE4 8WQ
Channel Islands

Independent auditor's report to the members of Deutsche Bank International Limited – continued

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards; and
- have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991, the Banking Business (Jersey) Law 1991, the Financial Services (Trust Company and Investment Business (Accounts, Audits and Reports)) (Jersey) Order 2007 and the Financial Services (Fund Services Business (Accounts, Audits and Reports)) (Jersey) Order 2007.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Jersey) Law 1991 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the company; or
- returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

N. Stevens
Nicholas L Stevens

for and on behalf of KPMG Channel Islands Limited
Chartered Accountants

26 March 2013

Deutsche Bank International Limited

Statement of Financial Position
As at 31 December 2012

	Note	2012 GBP	2011 GBP
Assets			
Placements with banks	11	2,109,387,189	2,281,531,078
Loans and advances to customers	12	42,683,155	43,289,133
Property and equipment	13	834,699	745,456
Intangible assets	14	-	308,553
Investment in subsidiaries	15	775,200	775,200
Tax asset	10	2,661,731	1,143,139
Receivables from service relationships	25	61,929,128	54,521,142
Other assets	16	4,367,598	8,108,299
Employee benefits	17	25,740,899	25,338,600
Total assets		2,248,379,599	2,415,760,600
Liabilities			
Deposits from banks	18	189,251,550	165,521,841
Deposits from customers	19	1,831,707,797	2,014,672,601
Other short term borrowings	20	3,018,436	83,652
Payables from service relationships	25	42,151,114	13,712,512
Tax liabilities		9,994	7,771
Other liabilities	21	41,298,373	70,807,797
Total liabilities		2,107,437,264	2,264,806,174
Equity			
Share capital	22	15,000,000	15,000,000
Share premium	22	1,707,265	1,707,265
Retained earnings		124,235,070	134,247,161
Total equity		140,942,335	150,954,426
Total liabilities and equity		2,248,379,599	2,415,760,600

The financial statements on pages 6 to 54 were approved and authorised for issue

by the Board of Directors on 22 March 2013

and signed on its behalf by:

Director *Director*

The notes on pages 11 to 54 are an integral part of these financial statements.

Deutsche Bank International Limited

Statement of Comprehensive Income
For the year ended 31 December 2012

	Note	2012 GBP	2011 GBP
Continuing operations			
Interest income		12,049,675	16,655,633
Interest expense		(7,051,415)	(9,436,755)
Net interest income		4,998,260	7,218,878
Non interest income			
Commission and fee income		6,642,333	6,894,683
Foreign exchange commissions		3,523,931	4,108,805
Dividend received from subsidiaries		3,471,564	3,014,029
		13,637,828	14,017,517
Operating income		18,636,088	21,236,395
Loan loss recovery	6	258,593	178,010
Non-interest expenses			
Personnel expenses	7	(34,933,014)	(44,375,122)
Depreciation	13	(501,480)	(390,757)
Other expenses	8	(11,607,813)	(12,945,419)
Software impairment	9	(13,468,729)	-
Service relationships		30,157,471	39,540,746
		(30,353,565)	(18,170,552)
(Loss) \ profit before income tax		**(11,458,884)**	3,243,853
Income tax credit	10	**1,561,493**	382,259
(Loss) \ profit for the year		**(9,897,391)**	3,626,112
Other comprehensive income			
Defined benefit plan actuarial (losses)/gains	17	**(70,000)**	9,115,000
Deferred tax charge on pension surplus		**(44,700)**	(1,174,624)
Other comprehensive income, net of tax		(114,700)	7,940,376
Total comprehensive income for the year		**(10,012,091)**	11,566,488

The notes on pages 11 to 54 are an integral part of these financial statements.

Deutsche Bank International Limited

Statement of Changes in Equity
For the year ended 31 December 2012

	Note	Share capital	Share Premium	Retained earnings	Total
		GBP	GBP	GBP	GBP
Balance at 1 January 2011		15,000,000	1,707,265	122,680,673	139,387,938
Total comprehensive income for the period					
Profit and loss		-	-	3,626,112	3,626,112
Other comprehensive income, net of tax		-	-	7,940,376	7,940,376
Total comprehensive income		-	-	11,566,488	11,566,488
Transactions with owners, recorded directly in equity					
Dividends to shareholders	22	-	-	-	-
Balance at 31 December 2011		15,000,000	1,707,265	134,247,161	150,954,426
Total comprehensive income for the period					
Profit and loss		-	-	(9,897,391)	(9,897,391)
Other comprehensive income, net of tax		-	-	(114,700)	(114,700)
Total comprehensive income		-	-	(10,012,091)	(10,012,091)
Transactions with owners, recorded directly in equity					
Dividends to shareholders	22	-	-	-	-
Balance at 31 December 2012		15,000,000	1,707,265	124,235,070	140,942,335

The notes on pages 11 to 54 are an integral part of these financial statements.

Deutsche Bank International Limited

Statement of Cash Flows
For the year ended 31 December 2012

	Note	2012 GBP	2011 GBP
Cash flows from operating activities			
(Loss)/profit for the year		(9,897,391)	3,626,112
Adjustments for:			
Depreciation	13	501,480	390,757
Software impairment	9	13,468,729	-
Dividend received from subsidiaries		(3,471,564)	(3,014,029)
Defined benefit pension cost		338,845	824,528
Income tax credit		(1,561,493)	(382,259)
Operating (loss)/profit before working capital changes		(621,394)	1,445,109
Changes in operating assets and liabilities			
Placements with banks		6,126,109	84,399,271
Loans and advances to customers		605,978	6,357,470
Receivables from service relationships		(7,407,986)	9,154,401
Other assets		3,740,701	5,487,005
Deposits from banks		23,729,709	20,479,624
Deposits from customers		(182,964,804)	(328,397,641)
Other short term borrowings		2,934,784	(3,786,779)
Payables from service relationships		15,278,426	(10,635,029)
Other liabilities		(29,509,424)	8,777,577
Cash generated from operating activities		(168,087,901)	(206,718,992)
Cash contribution to defined benefit pension		(911,580)	(3,555,498)
Cash contributions to defined benefit recharged		58,137	98,472
Income tax refund		40,500	452,812
Income and other tax		2,223	5,652
Net cash generated from operating activities		(168,898,621)	(209,717,554)
Cash flow from investing activities			
Acquisition of property and equipment		(590,723)	(346,241)
Dividend received from subsidiaries		3,471,564	3,014,029
Expenditure on intangible asset		-	(23,342)
Net cash used in investing activities		2,880,841	2,644,446
Net change in cash and cash equivalents		(166,017,780)	(207,073,108)
Cash and cash equivalents at beginning of year		1,816,950,535	2,024,023,643
Cash and cash equivalents at end of year		1,650,932,755	1,816,950,535

Deutsche Bank International Limited

Statement of Cash Flows (continued)
For the year ended 31 December 2012

	2012 GBP	2011 GBP
Supplemental disclosure of cash flows from operating activities		
Interest received	12,610,080	16,746,643
Interest paid	7,305,256	15,049,694
Dividend received	3,471,564	3,014,029

The notes on pages 11 to 54 are an integral part of these financial statements.

Deutsche Bank International Limited

Notes to Financial Statements
For the year ended 31 December 2012

1. Reporting entity

Deutsche Bank International Limited (the "Company") was incorporated in Jersey in 1972.

The Company holds a banking licence and is subject to the provisions of the Banking Business (Jersey) law 1991 and the Company is also licenced under the Financial Services (Jersey) Law 1998 to conduct Trust Company Business, Fund Services Business and Investment Business.

The Company is also subject to the provisions of the Banking Supervision (Bailiwick of Guernsey) Law 1994 and is licenced under section 6 of this law to take deposits.

The Company's principal activities include the provision of international banking, trust, corporate and investment management services.

The Company is a member of the Deutsche Bank Group and is a wholly-owned subsidiary of Deutsche Holdings (Malta) Limited. The ultimate parent is Deutsche Bank AG ("DBAG"), a company incorporated in Germany. Copies of the annual financial statements of Deutsche Bank AG can be obtained from their website at www.db.com

The financial statements were authorised for issue by the directors on 22 March 2013.

2. Basis of preparation

(a) *Statement of compliance*

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(b) *Basis of measurement*

The financial statements have been prepared on the historical cost basis except for derivatives and certain deposits which are measured at fair value and the defined benefit asset which is recognised as the net total of the plan assets, plus unrecognised past service cost and unrecognised actuarial losses, less unrecognised gains and the present value of the defined benefit obligation.

(c) *Functional and presentation currency*

These financial statements are presented in Sterling (GBP), which is the Company's functional currency, and is rounded to the nearest 'Pound'.

2. Basis of preparation (continued)

(d) *Use of estimates and judgements*

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

The significant areas of estimation, uncertainty and critical judgement in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements include:

- Going concern;
- Employee benefits under defined benefit obligations (see note 17),
- Recognition of deferred tax assets on tax losses carried forward (see note 10).

3. Significant accounting policies

The following accounting policies set out below have been consistently applied in dealing with items which are considered material in relation to the financial statements. The accounting policies are consistent with those adopted by the Company in the previous year presented in these financial statements.

Previously the Company had prepared consolidated financial statements however from 31 December 2010 the Company has elected not to. See also note 3(u).

(a) *Presentational currency*

The results and financial position of the Company are expressed in pounds sterling, the presentational currency for these financial statements. Pounds sterling is also the functional currency of the Company.

(b) *Foreign currency transactions*

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at the reporting currency at the foreign exchange rates ruling at the dates the values were determined.

Forward foreign exchange contracts are valued at the balance sheet date using the applicable forward contract rate

3. Significant accounting policies (continued)

(c) *Interest*

Interest income and expense are recognised in the statement of comprehensive income using the effective interest rate method. The effective interest rate is the rate that discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

The calculation of the effective interest rate includes all fees and points paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

(d) *Fees and commission*

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, administration fees and sales commissions are recognised in the statement of comprehensive income as the related services are performed. All income and expense are recognised on an accruals basis.

(e) *Dividends received*

Dividend income is recognised when the right to receive income is established. Usually, this is when they have been approved by the Directors of the subsidiaries and paid to the Company.

(f) *Financial assets and liabilities*

(i) Recognition

The Company initially recognises placements with banks and deposits on the date that they are originated. All other financial assets and liabilities including derivatives are initially recognised on the date at which the Company becomes a party to the contractual provisions of the instrument.

(ii) Derecognition

The Company derecognises a financial asset including derivatives when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expired or when an existing financial liability is replaced by another from the same lender under substantially different terms.

3. Significant accounting policies (continued)

(iii) Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

(iv) Amortised cost measurement

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

(v) Identification and measurement of impairment

At each reporting date the Company assesses whether there is objective evidence that financial assets are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows, excluding credit events not yet incurred, discounted at the assets' original effective interest rate. Losses are recognised in the statement of comprehensive income and reflected in an allowance against placements with banks. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the statement of comprehensive income.

(g) *Cash and cash equivalents*

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with group companies and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Company in the management of its short-term commitments.

(h) *Placements with banks*

Placements with banks are measured at amortised cost, less impairment losses.

3. Significant accounting policies (continued)

(i) *Loans and advances*

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Company does not intend to sell immediately or in the near term.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except when the Company chooses to carry the loans and advances at fair value through profit or loss.

(j) *Other non-trading derivatives*

Except for derivatives that have not been designated as a qualifying hedge relationship which includes forward foreign currency contracts, all changes in its fair value are recognised immediately in profit and loss in the statement of comprehensive income.

(k) *Property and equipment*

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes all expenditures that are directly attributable to the acquisition of the asset.

Gains and losses on disposal of items of property or equipment are determined by reference to their carrying amount and are recognised in the statement of comprehensive income.

(ii) Subsequent costs

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

(iii) Depreciation

Depreciation is recognised in the statement of comprehensive income on a straight-line basis over the estimated useful lives of each item of property and equipment. The estimated useful lives for the current and comparative years are as follows:

Leasehold improvements	-	5 years
Office furniture and equipment	-	3 to 7 years

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

3. Significant accounting policies (continued)

(l) *Intangible assets*

Software acquired by the Company is stated at cost less accumulated amortisation and accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Company is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs, which are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

(m) *Impairment of non-financial assets*

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the statement of comprehensive income.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(n) *Deposits*

Deposits are the Company's main source of funding.

Deposits are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest rate method.

3. Significant accounting policies (continued)

(o) Employee benefits

(i) Defined benefit pension scheme

The Company operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Company.

Defined benefit scheme assets are measured at fair value. For quoted securities the current bid price is taken as fair value. Defined benefit scheme liabilities are measured using the projected unit method and are discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. Full actuarial valuations are obtained triennially from qualified actuaries appointed by the directors and updated for changes in the actuarial assumptions at each reporting date.

The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. Changes in the defined benefit asset or liability are recognised in the statement of comprehensive income.

Deferred tax relating to the defined benefit asset or liability is offset against the defined benefit asset or liability in accordance with IAS 19 'Employee benefits'.

(ii) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and has no legal or constructive obligations to pay further amounts.

The contributions to defined contribution pension plans are recognised in the statement of comprehensive income when they are due in respect of services rendered before the end of the reporting period. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(iii) Short-term employee benefits

Short-term employee benefits are recognised in the statement of comprehensive income as the related services are provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus plans if the Company has a present legal or constructive obligation to pay this amount as a result of services rendered before the end of the reporting period and the liability can be estimated reliably.

3. Significant accounting policies (continued)

(o) Employee benefits (continued)

(iv) Share based compensation

Compensation expense for equity awards in the ultimate parent Company Deutsche Bank AG, is measured at the grant date based on the fair value of the share based award and recorded on a straight line basis over the period in which employees perform services to which the awards relate or over the period of the tranches for those awards delivered in tranches.

Compensation expense for share based awards payable in cash is remeasured to fair value at each balance sheet date and recognised over the vesting period in which the related employee services are rendered. The related obligations are included in other liabilities until paid.

(p) Income tax expense

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in the profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax relating to the defined benefit asset or liability is offset against the defined benefit asset or liability in accordance with IAS 19 "Employee benefits".

3. **Significant accounting policies (continued)**

(q) *Dividends*

Dividends payable on ordinary shares are recognised in equity in the year in which they are declared.

(r) *Related parties*

For the purposes of these financial statements, parties are considered to be related to the Company if they have the ability, directly or indirectly, to control the Company or exercise significant influence over the Company in making financial and operating decisions, or vice versa, or where the Company is subject to common control or common significant influence. Related parties may be individuals or other entities.

(s) *Provisions*

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(t) *Financial guarantees*

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

Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment when a payment under the guarantee has become probable.

(u) *Investment in subsidiaries*

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable are taken into account

Investments in subsidiaries are stated at cost less impairment losses

The Company has elected not to prepare consolidated financial statements in accordance with the provisions of IAS 27 paragraph 10.

The ultimate parent is Deutsche Bank AG, a company incorporated in Germany. Copies of the annual financial statements of Deutsche Bank AG can be obtained from their website at www.db.com.

(v) *Fiduciary activities*

These financial statements do not reflect assets and liabilities held in the Company's name in a fiduciary capacity or any income arising within such holdings.

3. Significant accounting policies (continued)

(w) *Leased assets - lessee*

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised in the Company's statement of financial position.

(x) *Leases*

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Lease incentives granted are charged to the Statement of Comprehensive Income over the term of the lease.

(y) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2012, and have not been applied in preparing these financial statements. None of these are expected to have an effect on the financial statements of the Company, with the exception of:

Standards and Interpretations issued by the International Accounting Standards Board (IASB).

Standards applicable in 2013

In May 2011, the IASB issued IFRS 10 'Consolidated Financial Statements' ('IFRS 10'), IFRS 11 'Joint Arrangements' ('IFRS 11') and 'IFRS 12 'Disclosure of Interests in Other Entities' ('IFRS 12'). The standards are effective for annual periods beginning on or after 1 January 2013 with early adoption permitted. IFRSs 10 and 11 are to be applied retrospectively.

Under IFRS 10, there will be one approach for determining consolidation for all entities, based on the concept of power, variability of returns and their linkage. This will replace the current approach which emphasises legal control or exposure to risks and rewards, depending on the nature of the entity. IFRS 11 places more focus on the investors' rights and obligations than on structure of the arrangement, and introduces the concept of a joint operation. IFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements and associates and introduces new requirements for unconsolidated structured entities

The company believes it will continue to be exempt from the requirement to prepare consolidated financial statements under the provisions of IFRS 10.

In May 2011, the IASB also issued IFRS 13 'Fair Value Measurement' ('IFRS 13'). This standard is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted. IFRS 13 is required to be applied prospectively from the beginning of the first annual period in which it is applied. The disclosure requirements of IFRS 13 do not require comparative information to be provided for periods prior to initial application.

3. Significant accounting policies (continued)

(y) New standards and interpretations not yet adopted (continued)

IFRS 13 establishes a single source of guidance for all fair value measurements required or permitted by IFRSs. The standard clarifies the definition of fair value as an exit price, which is defined as a price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions, and enhances disclosures about fair value measurement.

The company is currently assessing the impact of IFRS 13 and it is not expected to have a significant impact on measurement as at the date of publication of these financial statements, which will depend on final interpretations of the standard, market conditions and the company's holdings of financial instruments at 1 January 2013.

In June 2011, the IASB issued amendments to IAS 19 'Employee Benefits' ('IAS 19 revised'). The revised standard is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted. IAS 19 revised must be applied retrospectively.

The company is currently assessing the impact of IAS 19 revised but does not expect it to have a significant impact on the financial statements.

In December 2011, the IASB issued amendments to IFRS 7 'Disclosures - Offsetting Financial Assets and Financial Liabilities' which requires the disclosures about the effect or potential effects of offsetting financial assets and financial liabilities and related arrangements on an entity's financial position. The amendments are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The amendments are required to be applied retrospectively.

Standards applicable in 2014

In December 2011, the IASB issued amendments to IAS 32 'Offsetting Financial Assets and Financial Liabilities' which clarified the requirements for offsetting financial instruments and addressed inconsistencies in current practice when applying the offsetting criteria in IAS 32 'Financial Instruments: Presentation'. The amendments are effective for annual periods beginning on or after 1 January 2014 with early adoption pe mitted and are required to be applied retrospectively.

The company is currently assessing the impact of these clarifications but it is not expected to have a significant impact on measurement as at the date of publication of these financial statements.

Standards applicable in 2015

In November 2009, the IASB issued IFRS 9 'Financial Instruments' ('IFRS 9') which introduced new requirements for the classification and measurement of financial assets. In October 2010, the IASB issued additions to IFRS 9 relating to financial liabilities. Together, these changes represent the first phase in the IASB's planned replacement of IAS 39 'Financial Instruments: Recognition and Measurement' ('IAS 39') with a less complex and improved standard for financial instruments.

Following the IASB's decision in December 2011 to defer the effective date, the standard is effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. IFRS 9 is required to be applied retrospectively but prior periods need not be restated.

3. Significant accounting policies (continued)

(y) New standards and interpretations not yet adopted (continued)

The second and third phases in the IASB's project to replace IAS 39 will address the impairment of financial assets measured at amortised cost and hedge accounting.

The IASB did not finalise the replacement of IAS 39 by its stated target of June 2011, and the IASB and the US Financial Accounting Standards Board have agreed to extend the timetable beyond this date to permit further work and consultation with stakeholders, including reopening IFRS 9 to address practice and other issues. The EU is not expected to endorse IFRS 9 until the completed standard is available. Therefore, the company remains unable to provide a date by which it plans to apply IFRS 9 and it remains impracticable to quantify the impact of IFRS 9 as at the date of publication of these financial statements.

4. Financial assets and liabilities

Accounting classifications and fair value

The table below sets out the Company's classification of each class of financial assets and liabilities and their fair values.

At 31 December 2012	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
	GBP	GBP	GBP	GBP
Assets				
Placements with banks	-	2,109,387,189	2,109,387,189	2,109,387,189
Loans and advances to customers	42,683,155	-	42,683,155	42,683,155
Other assets	-	66,296,726	66,296,726	66,296,726
	42,683,155	2,175,683,915	2,218,367,070	2,218,367,070
Liabilities				
Deposits with banks	-	189,251,550	189,251,550	189,251,550
Deposits with customers	-	1,831,707,797	1,831,707,797	1,831,707,797
Other short term borrowings	-	3,018,436	3,018,436	3,018,436
Other liabilities	-	83,449,487	83,449,487	83,449,487
	-	2,107,427,270	2,107,427,270	2,107,427,270

At 31 December 2011	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
	GBP	GBP	GBP	GBP
Assets				
Placements with banks	-	2,281,531,078	2,281,531,078	2,281,531,078
Loans and advances to customers	43,289,133	-	43,289,133	43,289,133
Other assets	-	62,629,441	62,629,441	62,629,441
	43,289,133	2,344,160,519	2,387,449,652	2,387,449,652
Liabilities				
Deposits with banks	-	165,521,841	165,521,841	165,521,841
Deposits with customers	-	2,014,672,601	2,014,672,601	2,014,672,601
Other short term borrowings	-	83,652	83,652	83,652
Other liabilities	-	84,520,309	84,520,309	84,520,309
	-	2,264,798,403	2,264,798,403	2,264,798,403

5. Financial risk management

Risk is an integral element of banking. Risks include market, credit, liquidity, foreign exchange, and operational risk. The risks of the company are managed at both a product and legal entity level, within the context of the Deutsche Bank group structure.

The Company has exposure to the following risks from its use of financial instruments:

Introduction and overview

- Credit risk
- Market risk
- Liquidity risk
- Operational risk

This note presents information about the Company's exposure to each of the above risks and the Company's objectives, policies and processes for measuring and managing the risks.

Credit risk

The Company is exposed to credit risk by depositing cash and cash equivalents and placements with banks and through its issuance of loans, guarantees and letters of credit.

The risk that counterparties might default on their obligations is monitored on an ongoing basis. To manage the level of credit risk, the Company deals with counterparties of good credit standing, and when appropriate, obtains collateral.

The Company's primary exposure to credit risk arises through the placement of deposits with Deutsche Bank group and its loan and advances. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the balance sheet. In addition, the Company is exposed to off balance sheet credit risk through commitments to extend credit and guarantees issued. Concentrations of credit risk that arise from financial instruments exist for groups of counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

Guarantees and letters of credit are also subject to strict credit assessments before being provided. The agreements specify monetary limits to the Company's obligations. Collateral for guarantees and letters of credit is usually in the form of cash.

5. Financial risk management (continued)

Market risk

Interest rate risk

The Company's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or are repriced at different times or in different amounts. In the case of floating rate assets and liabilities, the Company is also exposed to basis risk, which is the difference in repricing characteristics of the various floating rate indices, such as the savings rate and the Base Lending Rate and different types of interest.

Part of the bank's return on financial instruments is obtained from controlled mismatching of the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates or, if earlier, the dates on which instruments mature.

A negative interest rate sensitivity gap exists when more liabilities than assets reprice during a given period. Although a negative gap position tends to benefit net interest income in a declining interest rate environment, the actual effect will depend on a number of factors, including the extent to which repayments are made earlier or later than the contracted date and variations in interest rate sensitivity within repricing periods and among currencies.

Financial instruments are used to manage the Company's exposure to market risks and to take or alter the Company's positions in light of management's views on future movements in market prices. Derivatives are also used to provide clients with solutions to meet their commercial objectives.

During the period under review the Company, through the treasury unit, entered into derivative contracts in order to manage interest rate risk.

Interest rate related contracts are swaps and forward rate agreements. Interest rate swaps generally involve the exchange of fixed and floating rate payment obligations, by reference to a notional underlying principal amount, but without any exchange of the underlying principal amounts. Forward Rate Agreements are contracts under which an amount equivalent to interest at a specified rate on a specified notional principal amount, is to be paid at a specified future date, but without any transfer of the underlying notional principal amount.

5. Financial risk management (continued)

Interest rate risk control

Although the Company uses a range of techniques to manage its market price risk, the main method involves the use of value at risk (VAR) limits. The VAR is the expected loss that will arise over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). This is calculated on the non-trading book position.

Due to the steep fall in the yield curve experience by all deposit and lending institutions in the recent low interest rate environment across our core currencies, we have witnessed a sharp drop in the calculated VAR of the Bank based on recent historic trends and data analysis of the non-trading book position.

As a consequence, assuming a 99 percent confidence level and a one day holding period, the VAR of the Company's book as at 31 December 2012 was £10,546 (2011: £128,330) and the average, highest and lowest VAR levels experienced during 2012 were £52,248, £154,878 and £2,012 (2011: £91,033, £144,730 and £48,660) respectively. This means, inter alia, that on the basis of the risks in the book at 31 December 2012, the Company expected not to incur a loss on its book of more than £10,546 (2011: £128,330) in any one day more than 1 per cent of the time. Calculations use one year's worth of equally weighted data and assume zero correlation between different product areas.

The VAR figures disclosed above, for example, have the following main limitations:

- The historical data on which the calculations have been based may not necessarily reflect all the factors that are relevant to the estimation of VAR, give the correct weight to these factors, or be the best estimate of risk factor changes that will occur in the future;

- Using a one day time horizon does not fully capture the market price risk of positions that cannot be closed off within one day. Similarly, focusing on the maximum loss that is expected to be incurred 99 per cent of the time says little about the, admittedly smaller, losses that are expected to be incurred more frequently or the size of the losses in excess of the VAR that are expected to be incurred 1 per cent of the time; and

- The highest and lowest figures disclosed are based on calculations performed at the end of each business day, and the balance sheet date figure is also an end of day figure. The VAR during the course of a single day may change substantially and the end of day figure may not be representative of the figure at other times of the day.

5. Financial risk management (continued)

Interest rate risk (continued)

Risk management activities are aimed at optimising net interest income, given market interest rate levels are consistent with the Company's business strategies. The interest sensitivity gap analysis is summarised below:

At 31 December 2012

	Less than three months	Between three months and six months	Between six months and one year	Between one year and five years	Total
	GBP	GBP	GBP	GBP	GBP
Assets					
Placements with banks	2,045,535,942	59,575,467	3,566,196	709,584	2,109,387,189
Loans and advances to Customers	14,538,219	286,475	25,730,361	2,128,100	42,683,155
	2,060,074,161	59,861,942	29,296,557	2,837,684	2,152,070,344
Liabilities					
Deposits from banks	163,596,581	25,654,969	-	-	189,251,550
Deposits from customers	1,784,497,580	43,523,023	2,978,146	709,048	1,831,707,797
Other short term borrowings	3,018,436	-	-	-	3,018,436
	1,951,112,597	69,177,992	2,978,146	709,048	2,023,977,783
Interest sensitivity gap	108,961,564	(9,316,050)	26,318,411	2,128,636	128,092,561

5. Financial risk management (continued)

Interest rate risk (continued)

At 31 December 2011

	Less than three months	Between three months and six months	Between six months and one year	Between one year and five years	Total
	GBP	GBP	GBP	GBP	GBP
Assets					
Placements with banks	2,144,111,717	131.597 536	5.821.824	-	2,281.531.077
Loans and advances to Customers	13,911.344	854,159	25,998,057	2.525,573	43.289.133
	2,158,023.061	132.451.695	31,819,881	2.525.573	2.324.820.210
Liabilities					
Deposits from banks	141,071,933	-	24,449,908	-	165.521,841
Deposits from customers	1,905,449.578	102,737.14	6,485,883	-	2,014.672.601
Other short term borrowings	83,652	-	-	-	83,652
	2,046,605,163	102,737.140	30,935,791	-	2,180.278,094
Interest sensitivity gap	111,417.898	29,714,555	884,090	2.525.573	144,542.116

5. Financial risk management (continued)

Market risk (continued)

Currency risk

The Company is exposed to currency risk through transactions in foreign currencies. The Company's main operations are in Sterling, Euro, United States Dollar and other foreign currencies. As the currency in which the Company presents its financial statements is Sterling, the Company's financial statements are affected by movements in the exchange rates between these currencies and Sterling. The Company's transactional exposures give rise to foreign currency gains and losses that are recognised in the statement of comprehensive income. These expenses comprise of the monetary assets and monetary liabilities that are not denominated in the measurement currency of the Company.

During the period under review the Company, through the treasury unit, entered into derivative contracts in order to manage currency risk.

Exchange rate related derivatives are forward foreign exchange contracts which are used to hedge all exposure on deals booked on behalf of clients. Forward foreign exchange contracts are contracts for delivery of a specified amount of currency, at a specified exchange rate, at a specified forward date.

In general, the Company has a currency matching policy such that its currency exposure is considered to be minimal.

The currency profile of the Company's financial assets and liabilities is summarised as follows:

	Financial assets 2012 GBP	Financial liabilities 2012 GBP	Net position 2012 GBP
Pound sterling	782,828,161	672,460,323	110,367,838
United States dollar	776,025,247	777,228,119	(1,202,872)
Euro	513,215,910	511,814,243	1,401,667
Canadian dollar	26,254,450	26,261,137	(6,687)
Japanese Yen	12,735,993	12,751,164	(15,171)
Swiss Franc	25,761,580	25,901,334	(139,754)
Other foreign currencies	81,545,729	81,010,950	534,779
	2,218,367,070	2,107,427,270	110,939,800

5. Financial risk management (continued)

Market risk (continued)
Currency risk (continued)

	Financial assets 2011 GBP	Financial liabilities 2011 GBP	Net position 2011 GBP
Pound sterling	817,244,581	696,046,836	121,197,745
United States dollar	911,066,284	913,997,946	(2,931,662)
Euro	516,433,672	514,667,115	1,766,557
Canadian dollar	11,513,764	11,469,249	44,515
Japanese Yen	7,024,655	6,528,067	496,588
Swiss Franc	21,455,695	20,804,608	651,087
Other foreign currencies	102,711,001	101,284,582	1,426,419
	2,387,449,652	2,264,798,403	122,651,249

After taking into account the effect of any currency swaps, forward contracts and other derivatives, there were the following exposures.

	Spot 2012 GBP	Forward 2012 GBP	Net position 2012 GBP
United States dollar	(1,494,000)	1,496,000	2,000
Euro	1,359,000	(1,337,000)	22,000
Canadian dollar	(11,000)	(3,000)	(14,000)
Japanese Yen	(15,000)	78,000	63,000
Swiss Franc	(140,000)	198,000	58,000
Other foreign currencies	49,000	(85,000)	(36,000)
	(252,000)	347,000	95,000

	Spot 2011 GBP	Forward 2011 GBP	Net position 2011 GBP
United States dollar	(3,588,000)	3,678,000	90,000
Euro	1,587,000	(1,371,000)	216,000
Canadian dollar	40,000	(45,000)	(5,000)
Japanese Yen	492,000	(431,000)	61,000
Swiss Franc	650,000	(643,000)	7,000
Other foreign currencies	1,399,000	(1,370,000)	29,000
	(580,000)	182,000	(398,000)

5. Financial risk management (continued)

No sensitivity analysis has been performed on currency positions as owing to internal controls and currency matching policy resulting in a minimal net exposure, the Company does not see a benefit to such analysis.

Although the Company is satisfied that the package of controls it uses to manage its market risk is an effective means of controlling that risk, it recognises that all measures of market price risk, when considered in isolation, have limitations.

Deutsche Bank International Limited

Notes to Financial Statements
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5. Financial risk management (continued)

Liquidity risk

Liquidity risk arises in the general funding of the Company's activities and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame. The Company strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The Company continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Company's strategy. In addition, the Company holds a portfolio of liquid assets as part of its liquidity risk management strategies. The following table provides an analysis of the assets and liabilities of the Company to relevant maturity groupings based on their contractual undiscounted cashflows and their remaining periods of repayment. Maturities of assets and liabilities are summarised below:

At 31 December 2012

	Less than three months	Between three months and six months	Between six months and one year	Between one year and five years	Others	Total
	GBP	GBP	GBP	GBP	GBP	GBP
Assets						
Placements with Banks	2,045,535,943	59,575,467	3,566,196	709,583	-	2,109,387,189
Loans and advances to customers	14,538,220	286,475	25,730,360	2,128,100	-	42,683,155
Other assets	68,958,457	-	-	-	27,350,798	96,309,255
	2,129,032,619	59,861,942	29,296,556	2,837,683	27,350,798	2,248,379,599
Gross forward Foreign exchange Inflow	760,273,450	84,307,453	3,138,498	-	-	847,719,401
Liabilities						
Deposits from banks	163,596,580	25,654,970	-	-	-	189,251,550
Deposits from customers	1,784,497,580	43,523,023	2,978,146	709,048	-	1,831,707,797
Other short term borrowings	3,018,436	-	-	-	-	3,018,436
Other liabilities	83,459,481	-	-	-	140,942,335	224,401,816
	2,034,572,077	69,177,993	2,978,146	709,048	140,942,335	
Gross forward Foreign exchange outflow	759,977,922	84,239,130	3,138,096	-	-	847,355,148

5. Financial risk management (continued)

Liquidity risk (continued)

At 31 December 2011

	Less than three months	Between three months and six months	Between six months and one year	Between one year and five years	Others	Total
	GBP	GBP	GBP	GBP	GBP	GBP
Assets						
Placements with Banks	2,144,111,718	131,597,536	5,821,824	-	-	2,281,531,078
Loans and advances to customers	13,911,344	854,159	25,998,057	2,525,573	-	43,289,133
Other assets	63,772,580	-	-	-	27,167,809	90,940,389
	2,221,795,642	132,451,695	31,819,881	2,525,573	27,167,809	2,415,760,600
Gross forward Fx inflow	767,738,919	48,475,038	6,351,507	3,199,823	-	825,765,287
Liabilities						
Deposits from banks	141,071,933	-	24,449,908	-	-	165,521,841
Deposits from customers	1,905,449,578	102,737,140	6,485,883	-	-	2,014,672,601
Other short term borrowings	83,652	-	-	-	-	83,652
Other liabilities	84,528,080	-	-	-	150,954,426	235,482,506
	2,131,133,243	102,737,140	30,935,791	-	150,954,426	2,415,760,600
Gross forward Fx outflow	767,802,337	48,461,362	6,350,505	3,199,080	-	825,813,284

5. Financial risk management (continued)

Capital management

The Company manages the level of share capital and revenue reserves to be maintained in order to meet regulatory capital requirements and enable the Company to operate and develop its financial service business.

The Company is subject to the regulatory capital requirements established by the Jersey Financial Services Commission (JFSC). Failure to meet the minimum capital requirements can initiate certain actions by the regulators that, if undertaken, could have a direct material effect on the Company's financial statements. The JFSC follows the Bank of International Settlements capital adequacy regime. The Company must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities and certain off-balance sheet items. The Company's capital amount and classifications are also subject to qualitative analysis by the JFSC.

Quantitative measures established by the JFSC to ensure capital adequacy require that the Company maintains a minimum amount of capital and a minimum ratio of risk-weighted assets to capital. Management believes that as of 31 December 2012, the Company met all regulatory capital adequacy requirements established by JFSC.

The Company's regulatory capital amount and its risk asset ratio at 31 December 2012 as well as JFSC's minimum requirements, are as follows:

	Actual	Minimum requirement
	GBP	GBP
Reg Capital	103,130,000	68,879,000
Risk asset ratio	15.72%	10.50%

The Company's regulatory capital amount and its risk asset ratio at 31 December 2011 as well as JFSC's minimum requirements, was as follows:

	Actual	Minimum requirement
	GBP	GBP
Reg Capital	116,032,000	74,978,000
Risk asset ratio	17.02%	11.0%

5. Financial risk management (continued)

Capital management(continued)

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The Company has in place a robust system of internal controls aimed at minimising the incidence of operational losses.

6. Loan loss recovery

	2012 GBP	2011 GBP
Loan loss recovery	258,593	178,010
	258,593	178,010

During the year the Company recovered £258,593 (2011: £178,010) in respect of a loan that had been previously written off in full. No further recoveries are expected.

7. Personnel expenses

	2012 GBP	2011 GBP
Wages and salaries	10,574,754	11,206,078
Bonus & sign on costs	20,280,860	30,072,834
Compulsory social security contributions	498,598	487,118
Expenses for defined benefit pension plans	338,845	824,528
Contributions to defined contribution plans	774,367	771,956
Other benefits – non state mandated	486,691	511,328
Severance payments	2,011,265	525,041
Other compensation	(32,366)	(23,761)
	34,933,014	44,375,122

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8. Other expenses

	2012 GBP	2011 GBP
Premises expense	1,943,792	2,084,855
Furniture & equipment	110,940	131,540
IT Cost	1,331,426	1,523,884
Agency and other professional fees	3,255,474	3,417,401
Communication and data services	846,327	1,028,084
Non-compensation staff expense	426,658	320,943
Travel	2,334,577	3,203,417
Representation cost	258,087	313,468
Marketing	222,052	206,390
Regulatory, tax & insurance	634,114	837,360
Operational losses	149,423	67,293
Other	94,943	(189,216)
	11,607,813	12,945,419

9. Software Impairment

	2012	2011
	GBP	GBP
Software impairment	**13,468,729**	-

In 2006 the Company's 'Private Wealth Management' business area engaged in a scoping initiative in respect of a new Banking and Custody platform for various booking centres globally. This new platform is commonly referred to as NPP.

The objective was to deliver a world class common operating platform and the Company was determined in scope for a wave 3 roll out in Quarter 3 2009.

The project deliverables and timelines have been subject to numerous changes throughout the project history. The platform has only been delivered in respect of two Deutsche Bank booking locations and ultimately the Company has not been in receipt of the NPP.

Throughout the project history the Company has contributed its share of costs to the NPP based on the standard Deutsche Bank global 'Private Wealth Management' transfer pricing methodology.

A recent review was conducted by a third party consultancy group that was completed at the end of October 2012.The recommendation of this review, based on the conclusion that NPP is overly complex and poorly developed and therefore costly to rollout and maintain, is that further rollouts should be cancelled.

The 'Private Wealth Management' business have now decided to follow the recommendation and this formal decision has triggered the impairment of the asset.

The capitalised costs remain on source entities, and the assets primarily reside in Deutshce Bank Singapore and Deutsche Bank Switzerland as these were the development centres.

Capitalised assets will be written down in the cost centre where it is located and then the profit & loss impact will be transferred to the appropriate entities, per the group allocation methodology.

The Company's share of the impairment cost is GBP13.4m (of this total GBP0.3m was previously capitalised in the Company's financial statements (see note 14)).

The Company has recognised the impairment in full as part of it's taxation calculations which results in a deferred tax income of GBP1.3m (see note 10).

10. Taxation

	2012 GBP	2011 GBP
Current tax expense		
Current year	-	-
Income tax refund	(40,500)	-
	(40,500)	-
Deferred tax (income)/expense		
Deferred tax on tax losses carried forward	(1,520,993)	(244,127)
Available losses released as group relief	-	(27,326)
Adjustment for prior years	-	(110,806)
	(1,520,993)	(382,259)
Total income tax credit	(1,561,493)	(382,259)

Reconciliation of effective tax rate

	2012 GBP	2011 GBP
(Loss)/profit before income tax – continuing operations	(11,458,884)	3,243,853
(Loss)/profit for the year	(11,458,884)	3,243,853
Income tax at 10%	(1,145,888)	324,385
Effects of:		
Expenses not deductible for tax purposes	6,017	-
Depreciation for the year in excess of capital allowances	9,935	5,988
Dividend income from subsidiaries	(347,156)	(301,403)
Cash payments to defined benefit scheme in excess of IAS 19 charge to profit & loss	(43,901)	(273,097)
Tax credit	(1,520,993)	(244,127)
Available losses released as group relief	-	(27,326)
Adjustment for prior years deferred tax	-	(110,806)
Total income tax credit	(1,520,993)	(382,259)

10. Taxation – continued

Tax assets are attributable to the following:

	2012 GBP	2011 GBP
Tax loss carry forwards	2,661,731	1,121,967
Payment on account	-	21,172
	2,661,731	1,143,139

A deferred tax liability of £2,860,100 (2011: 2,815,400) arises on the employee benefits surplus. This has been netted against the gross employee benefits surplus in the statement of financial position (see also note 17)

11. Placements with banks

	2012 GBP	2011 GBP
Less than 3 months	2,045,535,943	327,161,183
Over 3 months and up to 6 months	59,575,467	131,597,536
Over 6 months and up to 12 months	3,566,196	5,821,824
1 year to 2 years	709,583	-
	2,109,387,189	464,580,543

	2012 GBP	2011 GBP
Cash and cash equivalents	1,650,932,755	1,816,950,535
Placements with banks with an original maturity greater than three months	458,454,434	464,580,543
	2,109,387,189	2,281,531,078

Cash and cash equivalents are defined as placements with banks with an original maturity less than three months

11. Placements with banks - continued

Placements with banks at fair value

Included in placements with banks are the following amounts being placements with an embedded foreign exchange derivative. Such placements are included at fair value in the financial statements of the company. The fair value element of the placements at 31 December 2012 was £59,725 (2011: £854).

	2012 GBP	2011 GBP
Less than 3 months	2,349,456	875,791
Over 3 months and up to 6 months	116,299	-
Over 6 months and up to 12 months	1,071,472	-
1 year to 2 years	-	-
	3,537,227	875,791

12. Loans and advances to customers

	2012 GBP	2011 GBP
Overdrafts	7,752,106	4,380,105
Term Loans	34,931,049	38,909,028
	42,683,155	43,289,133

One day	7,717,883	4,379,658
Less than 3 months	6,820,336	9,531,686
Over 3 months and up to 6 months	286,475	854,159
Over 6 months and up to 12 months	25,730,361	25,998,057
More than one year	2,128,100	2,525,573
	42,683,155	43,289,133

	2012 GBP	2011 GBP
Fair value of collateral held	186,077,442	123,728,556

There were no loans and advances past due or impaired as at the reporting date.

No loans to Directors were in place at the year end.

13. Property and equipment

	Office furniture and equipment	Leasehold improvements	Total
	GBP	GBP	GBP
Cost			
At 1 January 2011	8,625,082	3,311,650	11,936,732
Additions	346,241	-	346,241
At 31 December 2011	8,971,323	3,311,650	12,282,973
Additions	168,731	421,992	590,723
At 31 December 2012	9,140,054	3,733,642	12,873,696
Depreciation			
At 1 January 2011	8,109,470	3,037,290	11,146,760
Charge for the year	350,497	40,260	390,757
At 31 December 2011	8,459,967	3,077,550	11,537,517
Charge for the year	322,899	178,581	501,480
As at December 2012	8,782,866	3,256,131	12,038,997
Net book value			
At 31 December 2012	357,188	477,511	834,699
At 31 December 2011	511,356	234,100	745,456

14. Intangible assets

	2012 GBP	2011 GBP
Software	-	308,553
	-	308,553

Additions during the year amounted to GBP Nil (2011: GBP23,342).

This software asset was written off in the year owing to the impairment of the related booking platform. See also note 9.

15. Investment in subsidiaries

	2012 GBP	2011 GBP
Deutsche International Custodial Services Limited	500,000	500,000
Deutsche International Corporate Services Limited	275,000	275,000
Deutsche Bank Nominees (Jersey) Limited	100	100
Deutsche Bank Services (Jersey) Limited	100	100
	775,200	775,200

All current subsidiaries are wholly owned Jersey incorporated companies.

16. Other assets

	2012 GBP	2011 GBP
Fee and other income receivable	1,021,232	2,939,395
Customer assets in transit	33,137	4,072
Accrued interest receivable	772,334	1,332,738
Mark to market of forward foreign exchange contracts	1,383,120	1,749,219
Expenses prepaid	766,796	672,070
Other assets	390,978	1,410,805
	4,367,598	8,108,299

17. Employee benefits

Defined benefit pension scheme

The Company operates a final salary pension plan for its employees. Membership of the final salary plan is generally restricted to those full-time permanent staff that commenced employment on or before 1 July 1999. A full actuarial valuation of the final salary plan was carried out by a qualified actuary as at 31 December 2012. As the plan is effectively closed, the absence of new members means that the average age of the active members will increase.

The plan is a funded defined benefit arrangement which provides retirement benefits based on final pensionable salary.

The valuation used for IAS 19 disclosures has been based on a full assessment of the liabilities of the plan. The present values of the defined benefit obligation, the related current service cost and any past service costs (if applicable) were measured using the projected unit method.

Actuarial assumptions as at:

	2012	2011
	%	%
Pension increase rate	3.30%	3.40%
Salary increase rate	4.30%	4.40%
Deferred pension increase rate	3.30%	3.40%
Return on assets	4.60%	4.60%
Discount rate	4.60%	5.00%

Changes in the defined benefit pension surplus:

	2012	2011
	GBP000	GBP000
Fair value of plan assets	**121,462**	115,807
Present (value) of funded obligations	**(92,861)**	(87,653)
Net over funding in funded plans	**28,601**	28,154
Deferred tax liability	**(2,860)**	(2,815)
Net asset	**25,741**	25,339

17. Employee benefits (continued)

Included in the statement of comprehensive income:

	2012 GBP000	2011 GBP000
Current service cost	**1,366**	1,403
Interest on obligation	**4,324**	4,427
Expected return on plan assets	**(5,295)**	(4,907)
Total included in personnel expenses	**395**	923
Actuarial gain on plan assets	**2,892**	13,045
Actuarial losses on obligation	**(2,962)**	(3,930)
Actuarial loss/gain recognised in other comprehensive income	(70)	9,115
Cumulative actuarial loss recognised in other comprehensive income	(2,630)	(2,560)

Forecast charge to be included in personnel expenses:

	2013 GBP000
Current service cost	1,259
Net interest on net defined benefit obligation	(1,336)
Expected return on plan assets	-
Total included in personnel expenses	(77)

Under the revised version of IAS19, from Jan 2013, the expected return of assets and interest items of the pension cost are combined into a single item called the "Net interest on the net defined benefit liability/(asset).

17. Employee benefits (continued)

Changes in the present value of the defined benefit obligation are as follows:

	2012 GBP000	2011 GBP000
Opening defined benefit obligation	87,653	79,929
Current service cost	1,366	1,403
Interest on obligation	4,324	4,427
Actuarial losses	2,962	3,930
Benefits paid	(3,444)	(2,036)
Closing defined benefit obligation	**92,861**	87,653

Changes in the fair value of plan assets are as follows

	2012 GBP000	2011 GBP000
Opening fair value of plan assets	115,807	96,336
Expected return on assets	5,295	4,907
Actuarial gains	2,892	13,045
Contributions by employer	912	3,555
Benefits paid	(3,444)	(2,036)
Closing fair value of plan assets	121,462	115,807

17. Employee benefits (continued)

The Employer expects to contribute GBP 911,576 to the Plan from 1 January 2013 to 31 December 2013.

The major categories of Plan assets as a percentage of the total Plan assets are as follows:

	2012 %	2011 %
Equities	12	11
Government bonds	26	37
Corporate Bonds *	63	49
Property	0	0
Cash and net position on derivatives	(1)	3
	100	100

*Includes investments in high yield debt, cash, asset backed securities and sovereign/supranational.

Amounts for the current and previous periods are as follows:

	2012 GBP000	2011 GBP000
Fair value of plan assets	121,462	115,807
Present value of defined benefit obligation	(92,861)	(87,653)
Surplus/(deficit)	28,601	28,154
Actuarial gains/(losses) on plan assets		
Amount	2,892	13,045
Percentage of plan assets	2.4%	11.3%
Experience gains/(losses) on obligation		
Amount	1,941	1,118
Percentage of present value of defined benefit obligation	2.1%	1.3%
Total actuarial gains/(losses) on obligation		
Amount	(2,962)	(3,930)
Percentage of present value of defined benefit obligation	(3.2%)	(4.5%)

17. **Employee benefits (continued)**

Defined contribution scheme

The Company also operates a money purchase plan. The pension charge for the year was GBP774,367 (2011: GBP771,956). There were no outstanding contributions as at 31 December 2012 and 2011. All new employees will become members of the defined contribution scheme.

Restricted cash and incentive plans

Deutsche Bank AG grants restricted cash and incentive awards for selected employees. Certain of the Company's employees qualified for this scheme.

The awards form part of Deutsche Bank's compensation programme from January 2009 for cash plans and February 2010 for other incentive plans.

The award value will be 'converted' into a EUR value by reference to the 2008 year end Euro exchange rate for cash awards and 2009 year end Euro exchange rate for other incentive plans. An award premium, consisting of 7.5% additional value for cash awards or 5% for other incentives is also granted

All awards are restricted until vesting. In order for the award to vest, the selected employees are required to remain an employee of Deutsche Bank through to the vesting date.

Restricted cash awards granted in January 2009 will vest as follows:

- 1/3 will vest on 4 January 2010
- 1/3 will vest on 4 January 2011
- 1/3 will vest on 4 January 2012

Restricted incentive awards granted in February 2010 will vest as follows:

- 33.34% will vest on 1 February 2011
- 33.33% will vest on 1 February 2012
- 33.33% will vest on 1 February 2013

Restricted incentive awards granted in February 2011 will vest as follows:

- 33.34% will vest on 1 February 2012
- 33.33% will vest on 1 February 2013
- 33.33% will vest on 1 February 2014

Restricted incentive awards granted in February 2012 will vest as follows:

- 33.34% will vest on 1 February 2013
- 33.33% will vest on 1 February 2014
- 33.33% will vest on 1 February 2015

In addition to the above further benefits are due to be awarded in February 2013.

17. Employee benefits (continued)

Restricted cash and incentive plans (continued)

Included in Other Liabilities in the statement of financial position

	2012 GBP	2011 GBP
Provision for retention awards	**14,623,437**	13,673,002

Included in Personnel expenses in the statement of comprehensive income

	2012 GBP	2011 GBP
Retention awards	**9,185,759**	10,707,556

Deutsche Bank AG equity plan

Deutsche Bank AG grants equity awards in the form of Restricted Equity units for selected employees. Certain of the Company's employees qualified for this scheme. The awards form part of eligible Company employees compensation since February 2008.

The value of units awarded is communicated to eligible employees during the annual compensation process The equity award value will be converted into a number of notional Deutsche Bank Shares by reference to the previous year end Euro exchange rate and the average closing share price (on the Frankfurt Stock exchange) for the last 10 days trading of the January in the current reporting year.

A premium of 5% additional notional shares is also granted in recognition that the units do not attract dividends.

Equity awards are restricted until vesting. In order for the award to vest, the selected employees are normally required to remain an employee of Deutsche Bank through to the vesting date.

Any awards granted in February 2010 will vest as follows:

- 33.34% will vest during 2011
- 33.33% will vest during 2012
- 33.33% will vest during 2013

17. Employee benefits (continued)

Deutsche Bank AG equity plan (continued)

Any awards granted in February 2011 will vest as follows:

- 33.34% will vest during 2012
- 33.33% will vest during 2013
- 33.33% will vest during 2014

Any awards granted in February 2012 will vest as follows:

- 33.34% will vest during 2013
- 33.33% will vest during 2014
- 33.33% will vest during 2015

Included in Other Liabilities in the statement of financial position

	2012 GBP	2011 GBP
Provision for equity based compensation	**14,521,513**	25,340,637

Included in Personnel expenses in the statement of comprehensive income

	2012 GBP	2011 GBP
Equity based compensation	**8,927,958**	14,903,113

18. Deposits from banks

	2012 GBP	2011 GBP
Time deposits with remaining term to maturity:		
- Demand deposit	**136,114,206**	84,153,380
- Within 3 months	**27,482,375**	56,918,553
- Over 3 up to 6 months	**-**	-
- Over 6 up to 12 months	**25,654,969**	24,449,908
	189,251,550	165,521,841

19. Deposits from customers

	2012 GBP	2011 GBP
Demand deposits	1,206,873,480	1,050,047,306
Time deposits with remaining term to maturity:		
- Within 3 months	577,624,100	855,402,272
- Over 3 up to 6 months	43,523,023	102,737,140
- Over 6 up to 12 months	2,978,146	6,485,883
- More than 1 year	709,048	-
	1,831,707,797	2,014,672,601

Included in deposits from customers are the following amounts being deposits with an embedded foreign exchange derivative. Such deposits are included at fair value in the financial statements of the company The fair value element of the deposits at 31 December 2012 was £55,726 (2011: £854).

	2012 GBP	2011 GBP
Demand deposits	-	-
Time deposits with remaining term to maturity:		
- Within 3 months	2,345,457	875,791
- Over 3 up to 6 months	116,299	-
- Over 6 up to 12 months	1,071,472	-
- More than 1 year	-	-
	3,533,228	875,791

20. Other short term borrowings

	2012 GBP	2011 GBP
Demand deposits	3,018,436	83,652
	3,018,436	83,652

Other short term borrowings are funds on the Company's nostro accounts at the year end pending settlement to a client or vendor's account.

21. Other liabilities

	2012 GBP	2011 GBP
Provision for compensation costs	31,656,993	43,321,495
Other provisions	552,652	647,118
Mark to market of forward foreign exchange contracts	1,115,881	1,741,762
Sundry creditors and accruals	1,839,887	5,140,022
Intercompany balances pending settlement	5,702,907	19,302,571
Customer assets in transit	33,138	4,072
Accrued interest payable	396,915	650,757
	41,298,373	70,807,797

22. Capital and reserves

	2012 GBP	2011 GBP
Authorised		
20,000,000 ordinary shares of par value GBP1 each	20,000,000	20,000,000
Issued and fully paid		
15,000,000 ordinary shares	15,000,000	15,000,000
Share premium	1,707,265	1,707,265

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

All shares rank equally with regard to the Company's residual assets.

Dividends

	2012 GBP	2011 GBP
Dividend paid GBP Nil per qualifying ordinary shares (2011 – GBP NIL)	-	-

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2012.

23. Contingent liabilities

The Company provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and are generally extended over the period of the facility. The commitments and contingent liabilities have off balance sheet credit risk because any organisational fees and accruals for probable losses are not recognised in the statement of financial position until the commitments are fulfilled or expired.

The contractual amounts of commitments and contingent liabilities are set out below:

	2012 GBP	2011 GBP
Letters of credit	5,285,682	5,221,957
Financial guarantees	19,009,942	21,591,583
Interest rate related contracts	2,476,000	2,525,573
Forward foreign exchange contracts	847,719,000	825,765,000
Undrawn facilities – less than 1 year	9,795,578	8,041,001
	884,286,202	863,145,114

The fair values of commitments and contingent liabilities are set out below:

	2012 GBP	2011 GBP
Letters of credit	5,285,682	5,221,957
Financial guarantees	19,009,942	21,591,583
Interest rate related contracts	(115,575)	(83,449)
Forward foreign exchange contracts	1,383,120	1,749,219
Undrawn facilities – less than 1 year	9,795,578	8,041,001
	35,358,747	36,520,311

A substantial proportion of guarantees are fully matched by counter indemnities given by third parties.

Included in the Company guarantees is an amount for GBP12,277,500 (2011: GBP12,523,500) being a guarantee to subsidiary companies, Deutsche International Corporate Services Limited and Deutsche International Custodial Services Limited, relating to the excess payable on group insurance policies. This guarantee is for a maximum of €15,000,000.

From time to time group companies may be the subject of claims and litigation, current, pending or threatened. The Directors believe that no such claims, either individually or in aggregate, will have a material effect on the Company's financial position.

24. Operating leases

	2012 GBP	2011 GBP
Future minimum rentals to be paid		
- less than one year	**1,584,899**	1,581,899
- between one and five years	**6,339,596**	6,327,595
- over five years	**18,057,155**	18,527,180
Total future minimum rentals payable	**25,981,650**	26,436,674

The Company has four separate lease contracts for premises as follows:

Property	Start Date	End Date	Remaining Years
St Paul's Gate, Jersey	18-Oct-96	17/10/2036	23
Dumaresq House, Jersey	11-Apr-00	24/12/2025	12
Lefebvre Court	01-Apr-98	31/03/2022	9
Lefebvre House	01-Oct-80	30/09/2022	9

From October 2012 the Company sublet part of the St Paul's Gate premises to third parties. The Company has also sublet Dumaresq house and Lefebvre House to third parties.

During the year ended 31 December 2012, an amount of GBP1,368,177 was recognized as an expense in the statement of comprehensive income in respect of rent and lease expense (2011: GBP1,510,289).

25. Related party transactions

The Company has a related party relationship with Deutsche Bank AG, the ultimate holding Company, with its affiliates and its Directors.

The Company has entered into a number of banking transactions with its related parties in the normal course of business. These include placements or loans to banks, deposits and fee income. These transactions were carried out on commercial terms and at market rates.

The net volumes of related party transactions, outstanding balances, the related expenses and income are as follows:

	2012 GBP	2011 GBP
Statement of Financial Position		
Placements with Banks	2,106,966,223	2,246,454,419
Investment in subsidiaries	775,200	775,200
Receivables from service relationships	61,929,128	54,521,142
Other assets	70,560	22,040
Deposits from banks	(189,251,550)	(165,521,841)
Deposits from customers	(37,867,276)	(55,531,882)
Other short term borrowings	(1,911,314)	(61,510)
Payables from service relationships	(42,151,114)	(13,712,512)

	2012 GBP	2011 GBP
Statement of Comprehensive Income		
Interest income	9,468,925	15,021,944
Interest expense	(238,084)	(1,145,215)
Commission and fee income	38,132	282,724
Dividend from subsidiaries	3,471,564	3,014,029
Software impairment	13,468,729	-
Service relationships	30,157,471	39,540,746
Income tax expense	-	27,326

Transactions with directors

Total remuneration of the directors for the year amounted to GBP832,845 (2011: GBP907,466)