Deutsche Bank (Malaysia) Berhad

(Company No. 312552-W)
(Incorporated in Malaysia)

and its subsidiaries

Financial statements for the year ended 31 December 2010

Deutsche Bank (Malaysia) Berhad
(Company No. 312552-W)
(Incorporated in Malaysia)
and its subsidiaries

Statement by Directors pursuant to Section 169(15) of the Companies Act, 1965

In the opinion of the Directors, the financial statements set out on pages 10 to 85 are properly drawn up in accordance with the Companies Act, 1965 and Financial Reporting Standards in Malaysia as modified by Bank Negara Malaysia's Guidelines so as to give a true and fair view of the financial position of the Group and of the Bank at 31 December 2010 and of their financial performance and cash flows for the financial year then ended.

Signed on behalf of the Board in accordance with a resolution of the Directors:

....

Tun Mohamed Dzaiddin bin Haji Abdullah

....

Raymond Yeoh Cheng Seong

Kuala Lumpur,

Date: 25 March 2011

Deutsche Bank (Malaysia) Berhad
(Company No. 312552-W)
(Incorporated in Malaysia)
and its subsidiaries

Statutory declaration pursuant to Section 169(16) of the Companies Act, 1965

I, **Liew Yeh Yin**, being the officer primarily responsible for the financial management of Deutsche Bank (Malaysia) Berhad, do solemnly, and sincerely declare that the financial statements set out on pages 10 to 85 are, to the best of my knowledge and belief, correct, and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the above named in Kuala Lumpur on 25 March 2011.

....
Liew Yeh Yin

Before me:

PESURUHJAYA SUMPAH
NO: W 606
NAMA: CHARANJIT KAUR
MALAYSIA

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Independent auditors' report to the member of Deutsche Bank (Malaysia) Berhad

(Company No. 312552-W)
(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of Deutsche Bank (Malaysia) Berhad, which comprise the statements of financial position as at 31 December 2010 of the Group and of the Bank, and the statements of comprehensive income, changes in equity and cash flows of the Group and of the Bank for the financial year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 10 to 85.

Directors' Responsibility for the Financial Statements

The Directors of the Bank are responsible for the preparation of these financial statements that give a true and fair view in accordance with the Companies Act, 1965 and Financial Reporting Standards in Malaysia as modified by Bank Negara Malaysia's Guidelines, and for such internal control as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

KPMG, a partnership established under Malaysian law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Company No. 312552-W

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with the Companies Act, 1965 and Financial Reporting Standards in Malaysia as modified by Bank Negara Malaysia's Guidelines so as to give a true and fair view of the financial position of the Group and of the Bank as of 31 December 2010 and of their financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Bank and its subsidiary companies of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

b) We are satisfied that the accounts of the subsidiary companies that have been consolidated with the Bank's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.

c) The audit reports on the accounts of the subsidiary companies did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

Other Matters

This report is made solely to the member of the Bank, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

KPMG
Firm Number: AF 0758
Chartered Accountants

Adrian Lee Lye Wang
Approval Number: 2679/11/11(J)
Chartered Accountant

Petaling Jaya, Selangor

Date: 25 March 2011

Deutsche Bank (Malaysia) Berhad

(Company No. 312552-W)
(Incorporated in Malaysia)

and its subsidiaries

Consolidated Statements of Financial Position as at 31 December 2010

		Group		Bank	
		2010	2009	2010	2009
	Note	RM'000	RM'000	RM'000	RM'000
Assets					
Cash and short-term funds	3	5,405,903	4,393,420	5,405,903	4,393,420
Securities purchased under resale agreement		2,764,327	3,077,020	2,764,327	3,077,020
Financial assets held-for-trading	4	1,113,962	1,426,661	1,113,962	1,426,661
Financial investments available-for-sale	5	9,064	5,605	9,064	5,605
Financial investments held-to-maturity	6	-	1,591	-	1,591
Loans, advances and financing	7	750,402	788,803	750,402	788,803
Other assets	8	1,783,996	1,504,478	1,783,996	1,504,478
Statutory deposit with Bank Negara Malaysia	9	225	225	225	225
Investments in subsidiary companies	10	-	-	20	20
Plant and equipment	11	3,509	3,662	3,509	3,662
Deferred tax assets	12	55,555	15,284	55,555	15,284
Tax recoverable		-	3,144	-	3,144
Total assets		11,886,943	11,219,893	11,886,963	11,219,913
Liabilities and shareholders' funds					
Deposits from customers	13	5,510,903	5,620,179	5,510,923	5,620,199
Deposits and placements of banks and other financial institutions	14	1,265,895	1,572,162	1,265,895	1,572,162
Obligations on securities sold under repurchase agreements		1,711,212	1,056,596	1,711,212	1,056,596
Other liabilities	15	2,024,074	1,781,416	2,024,074	1,781,416
Taxation		33,732	-	33,732	-
Total liabilities		10,545,816	10,030,353	10,545,836	10,030,373

Company No. 312552-W

Consolidated Statements of Financial Position as at 31 December 2010 (continued)

		Group		Bank	
		2010	2009	2010	2009
	Note	RM'000	RM'000	RM'000	RM'000
Share capital	16	173,599	173,599	173,599	173,599
Reserves	17	1,167,528	1,015,941	1,167,528	1,015,941
Shareholders' funds		1,341,127	1,189,540	1,341,127	1,189,540
Total liabilities and shareholders' funds		11,886,943	11,219,893	11,886,963	11,219,913
Commitments and contingencies	30	107,909,542	103,971,913	107,909,542	103,971,913

The notes on pages 17 to 85 are an integral part of these financial statements.

Deutsche Bank (Malaysia) Berhad

(Company No. 312552-W)
(Incorporated in Malaysia)

and its subsidiaries

Consolidated Statements of Comprehensive Income for the year ended 31 December 2010

		Group and Bank	
	Note	2010 RM'000	2009 RM'000
Interest income	18	228,019	187,823
Interest expense	19	(104,169)	(63,176)
Net interest income		123,850	124,647
Net income from Islamic Banking Operations	36	1,142	338
Non-interest income	20	185,220	129,057
Operating income		310,212	254,042
Other operating expenses	21	(123,629)	(108,640)
Operating profit		186,583	145,402
Allowance for impairment on loans, advances and financing	22	1,972	(14)
Profit before taxation		188,555	145,388
Tax expense	25	(47,723)	(35,396)
Net profit for the year		140,832	109,992
Other comprehensive income, net of tax			
Fair value of financial investments available-for-sale		1,400	2,067
Other comprehensive income for the year, net of tax		1,400	2,067
Total comprehensive income for the year		142,232	112,059
Earnings per share (sen)	26	81.1	63.4

The notes on pages 17 to 85 are an integral part of these financial statements.

Deutsche Bank (Malaysia) Berhad
(Company No. 312552-W)
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Consolidated Statements of Changes in Equity for the year ended 31 December 2010

	< ---- Attributable to equity holders of the Bank					---- >
	< ---- Non-distributable		---- >	Distributable		
Group and Bank	**Share capital RM'000**	**Share premium RM'000**	**Other reserves RM'000**	**Retained profits RM'000**	**Total reserves RM'000**	**Total RM'000**
At 1 January 2009	173,599	357,763	175,508	370,611	903,882	1,077,481
Net profit for the year	-	-	-	109,992	109,992	109,992
Other comprehensive income	-	-	2,067	-	2,067	2,067
Total comprehensive income for the year	-	-	2,067	109,992	112,059	112,059
At 31 December 2009	173,599	357,763	177,575	480,603	1,015,941	1,189,540
	Note 16	Note 17	Note 17	Note 17		

Company No. 312552-W

Consolidated Statements of Changes in Equity for the year ended 31 December 2010 (continued)

	< Attributable to equity holders of the Bank					>
	< Non-distributable		>	Distributable		
Group and Bank	**Share capital RM'000**	**Share premium RM'000**	**Other reserves RM'000**	**Retained profits RM'000**	**Total reserves RM'000**	**Total RM'000**
At 1 January 2010						
- as previously stated	173,599	357,763	177,575	480,603	1,015,941	1,189,540
- change in accounting policies (Note 35)	-	-	-	9,355	9,355	9,355
At 1 January 2010, as restated	173,599	357,763	177,575	489,958	1,025,296	1,198,895
Net profit for the year	-	-	-	140,832	140,832	140,832
Other comprehensive income	-	-	1,400	-	1,400	1,400
Total comprehensive income for the year	-	-	1,400	140,832	142,232	142,232
At 31 December 2010	173,599	357,763	178,975	630,790	1,167,528	1,341,127
	Note 16	Note 17	Note 17	Note 17		

The notes on pages 17 to 85 are an integral part of these financial statements.

Deutsche Bank (Malaysia) Berhad
(Company No. 312552-W)
(Incorporated in Malaysia)
and its subsidiaries

Consolidated Statements of Cash Flows for the year ended 31 December 2010

	Group and Bank 2010 RM'000	2009 RM'000
Cash flows from operating activities		
Profit before tax	188,555	145,388
Adjustments for items not involving the movement of cash and cash equivalents:		
Depreciation of plant and equipment	1,870	2,825
Net gain on disposal of plant and equipment	(172)	-
Net unrealised losses on revaluation of trading portfolio (including derivatives)	300,332	182,317
Unrealised (gain)/ losses from foreign exchange translation	(143,265)	58,544
(Gain)/ Losses arising from sale of financial assets held-for-trading	(4,788)	13,066
Operating profit before changes in operating assets	342,532	402,140
Decrease/(Increase) in operating assets		
Securities purchased under resale agreements	312,693	2,993,833
Financial assets held-for-trading	312,699	(728,457)
Loans, advances and financing	38,401	188,699
Other assets	2,450,414	2,683,427
Decrease/(Increase) in operating liabilities		
Deposits from customers	(109,276)	(322,099)
Deposits and placements of banks and other financial institutions	(306,267)	510,108
Obligations on securities sold under repurchase agreements	654,616	1,056,596
Other liabilities	(2,626,841)	(2,641,389)
Cash generated from operating activities	1,068,971	4,142,858
Net income taxes paid	(54,943)	(54,923)
Net cash generated from operating activities	1,014,028	4,087,935

Company No. 312552-W

Consolidated Statements of Cash Flows for the year ended 31 December 2010 (continued)

	Group and Bank	
	2010	2009
	RM'000	RM'000
Cash flows from investing activities		
Purchase of plant and equipment	(1,717)	(404)
Proceeds from disposal of plant and equipment	172	-
Net cash used in investing activities	(1,545)	(404)
Net increase in cash and cash equivalents	1,012,483	4,087,531
Cash and cash equivalents at beginning of year	4,393,420	305,889
Cash and cash equivalents at end of year (Note 3)	5,405,903	4,393,420

The notes on pages 17 to 85 are an integral part of these financial statements.

Deutsche Bank (Malaysia) Berhad
(Company No. 312552-W)
(Incorporated in Malaysia)
and its subsidiaries

Notes to the financial statements

The Bank is incorporated and domiciled in Malaysia. The registered office of the Bank is located at Level 18, Menara IMC, 8, Jalan Sultan Ismail, 50250 Kuala Lumpur. The consolidated financial statements of the Bank as at and for the year ended 31 December 2010 comprise the Bank and its subsidiaries (together referred to as the "Group").

The Group is principally engaged in all aspect of banking and related financial services. There have been no significant changes to these principal activities during the financial year.

The immediate and ultimate holding company of the Bank is Deutsche Bank Aktiengesellschaft, a Bank incorporated in Germany.

The financial statements were approved and authorised for issue by the Board of Directors on 25 March 2011.

1. Basis of preparation

(a) Statement of compliance

The financial statements of the Group and of the Bank have been prepared in accordance with Financial Reporting Standards ("FRS") issued by the Malaysian Accounting Standards Board as modified by Bank Negara Malaysia's Guidelines, accounting principles generally accepted in Malaysia and the Companies Act, 1965.

The Group and the Bank have not applied the following accounting standards, amendments and interpretations that have been issued by the Malaysian Accounting Standards Board ("MASB") but are not yet effective for the Group and the Bank:

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 March 2010

- Amendments to FRS 132, *Financial Instruments: Presentation – Classification of Rights Issues*

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 July 2010

- FRS 1, *First-time Adoption of Financial Reporting Standards* (revised)
- FRS 3, *Business Combinations* (revised)
- FRS 127, *Consolidated and Separate Financial Statements* (revised)
- Amendments to FRS 2, *Share-based Payment*
- Amendments to FRS 5, *Non-current Assets Held for Sale and Discontinued Operations*

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 July 2010 (continued)

- Amendments to FRS 138, *Intangible Assets*
- IC Interpretation 12, *Service Concession Agreements*
- IC Interpretation 16, *Hedges of a Net Investment in a Foreign Operation*
- IC Interpretation 17, *Distribution of Non-cash Assets to Owners*
- Amendments to IC Interpretation 9, *Reassessment of Embedded Derivatives*

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2011

- Amendments to FRS 1, *First-time Adoption of Financial Reporting Standards*
  – Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters
  – Additional Exemptions for First-time Adopters
- Amendments to FRS 7, *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*
- IC Interpretation 4, *Determining Whether an Arrangement Contains a Lease*
- IC Intepretation 18, *Transfers of Assets from Customers*
- TR i-4, *Shariah Compliant Sale Contracts*
- Improvements to FRSs (2010)

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 July 2011

- IC Interpretation 19, *Extinguishing Financial Liabilities with Equity Instruments*
- Amendments to IC Interpretation 14, *Prepayments of a Minimum Funding Requirements*

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2012

- FRS 124, *Related Party Disclosures (revised)*
- IC Interpretation 15, *Agreements for the Construction of Real Estate*

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

The Group and the Bank plan to apply the abovementioned standards, amendments and interpretations:

- from the annual period beginning 1 January 2011 for those standards, amendments or interpretations that will be effective for annual periods beginning on or after 1 March 2010, 1 July 2010 and 1 January 2011.
- from the annual period beginning 1 January 2012 for those standards, amendments or interpretations that will be effective for annual periods beginning on or after 1 July 2011 and 1 January 2012.

The initial applications of the above standards, amendments and interpretations are not expected to have any material impact on the financial statements of the Group and the Bank.

(b) Basis of measurement

The financial statements of the Group and the Bank have been prepared on the historical cost basis, except as mentioned in the respective accounting policy notes.

The financial statements incorporate all activities relating to the Islamic banking business which have been undertaken by the Group and the Bank. Islamic banking business refers generally to the acceptance of deposits and granting of financing under the principles of Shariah.

(c) Functional and presentation currency

The financial statements are presented in Ringgit Malaysia (RM) which is also the functional currency of the Bank and all values are rounded to the nearest thousand (RM'000), unless otherwise stated.

(d) Use of estimates and judgements

In the preparation of the financial statements, management has been required to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount 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 financial statements in the period in which the estimate is revised and in any future periods affected.

1. Basis of preparation (continued)

(d) Use of estimates and judgements (continued)

Significant areas of estimation, uncertainty and critical judgements used in applying accounting policies that have significant effect on the amount recognised in the financial statements include fair value estimation for financial assets held-for-trading (Note 4), financial investments available-for-sale (Note 5) and derivative financial assets and liabilities (Note 8, Note 15 and Note 33(d)) – the fair value of financial investments that are not traded in an active market are determined using valuation techniques based on assumptions of market conditions existing at the reporting date, including reference to quoted market prices and independent dealer quotes for similar securities and discounted cash flows method.

2. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by Group entities, unless otherwise stated.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are those entities controlled by the Group. Control exists when the Group has the ability to exercise its 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 presently are exercisable are taken into account. Subsidiaries are consolidated using the purchase method of accounting.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Investments in subsidiaries are stated in the Bank's statement of financial position at cost less any impairment losses.

2. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(b) Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances with banks and other financial institutions, and short-term deposits maturing within one month.

Cash and cash equivalents are categorised and measured as loans and receivables in accordance with policy note 2(c).

(c) Financial instruments

(i) Initial recognition and measurement

A financial instrument is recognised in the financial statements when, and only when, the Group or the Bank becomes a party to the contractual provisions of the instrument.

A financial instrument is recognised initially, at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

An embedded derivative is recognised separately from the host contract and accounted for as a derivative if, and only if, it is not closely related to the economic characteristics and risks of the host contract and the host contract is not categorised at fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with policy applicable to the nature of the host contract.

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

(ii) Financial instrument categories and subsequent measurement

The Group and the Bank categorise financial instruments as follows:

Financial assets

(a) Financial assets at fair value through profit or loss

Fair value through profit or loss category comprises financial assets that are held for trading, including derivatives or financial assets that are specifically designated into this category upon initial recognition.

Derivatives that are linked to and must be settled by delivery of unquoted equity instruments whose fair values cannot be reliably measured are measured at cost.

Other financial assets categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in profit or loss.

(b) Financial investments held-to-maturity

Held-to-maturity investments category comprises debt instruments that are quoted in an active market and the Group or the Bank has the positive intention and ability to hold to maturity.

Financial assets categorised as held-to-maturity investments are subsequently measured at amortised cost using the effective interest method.

(c) Loans and receivables

Loans and receivables category comprises debt instruments that are not quoted in an active market, trade and other receivables and cash and cash equivalents.

Financial assets categorised as loans and receivables are subsequently measured at amortised cost using the effective interest method.

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

(ii) Financial instrument categories and subsequent measurement (continued)

(d) Financial investments available-for-sale

Available-for-sale category comprises investment in equity and debt securities instruments that are not held for trading.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. Other financial assets categorised as available-for-sale are subsequently measured at their fair values with the gain or loss recognised in other comprehensive income, except for impairment losses, foreign exchange gains and losses arising from monetary items and gains and losses of hedged items attributable to hedge risks of fair value hedges which are recognised in profit or loss. On derecognition, the cumulative gain or loss recognised in other comprehensive income is reclassified from equity into profit or loss. Interest calculated for a debt instrument using the effective interest method is recognised in profit or loss.

All financial assets, except for those measured at fair value through profit or loss, are subject to review for impairment (see note 2(d)).

Financial liabilities

All financial liabilities are subsequently measured at amortised cost other than those categorised as fair value through profit or loss.

Fair value through profit or loss category comprises financial liabilities that are held for trading or derivatives.

Derivatives that are linked to and must be settled by delivery of unquoted equity instruments whose fair values cannot be reliably measured are measured at cost.

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

(iii) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer 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 original or modified terms of a debt instrument.

Financial guarantee contracts are classified as deferred income and are amortised to profit or loss using straight-line method over the contractual period or, when there is no specified contractual period, recognised in profit or loss upon discharge of the guarantee. When settlement of a financial guarantee contract becomes probable, an estimate of the obligation is made. If the carrying value of the financial guarantee contract is lower than obligation, the carrying value is adjusted to the obligation amount and accounted for as a provision.

(iv) Derecognition

A financial asset or part of it is derecognised when, and only when the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred to another party without retaining control or substantially all risks and rewards of the asset. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in the profit or loss.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged or cancelled or expires. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the profit or loss.

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

(v) Determination of fair value

For financial instruments measured at fair value, the fair value is determined by reference to quoted market prices or by using valuation models. For financial instruments with observable market prices which are traded in active markets, the fair values are based on their quoted market price or dealer price quotations. These include listed equity securities and broker quotes from Bloomberg and Reuters.

For all other financial instruments, fair value is determined using appropriate valuation techniques. In such cases, the fair values are estimated using discounted cash flow models and option pricing models, and based on observable data in respect of similar financial instruments and using inputs (such as yield curves) existing as at reporting date. The Group and the Bank generally use widely recognised valuation models with market observable inputs for the determination of fair values, due to the low complexity of financial instruments held.

Investments in unquoted equity instruments whose fair value cannot be reliably measured are measured at cost, and assessed for impairment at each reporting date.

(vi) Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and to settle the liability simultaneously. This is not generally the case with master netting agreements and therefore, the related assets and liabilities are presented on a gross basis in the statement of financial position.

2. Significant accounting policies (continued)

(d) Impairment

(i) Financial assets

All financial assets (except for financial assets categorised as fair value through profit or loss and investments in subsidiaries) are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised. For an equity instrument, a significant or prolonged decline in the fair value below its cost is an objective evidence of impairment.

In respect of loans, the Group and the Bank first assess individually whether objective evidence of impairment exists individually for loans which are individually significant, or collectively for loans which are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed loan, the loan is then included in a group of loans with similar credit risk characteristics and collectively assessed for impairment. Loans that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in collective assessment for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of loss is measured as the difference between the loan's carrying amount and the present value of the estimated future cash flows. The carrying amount of the loan is reduced through the use of an allowance account and the amount of loss is recognised in the statement of comprehensive income. Where appropriate, the calculation of the present value of estimated future cash flows of a collateralised loan reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

2. Significant accounting policies (continued)

(d) Impairment (continued)

(i) Financial assets (continued)

For loans which are collectively assessed, the Group and the Bank have applied the transitional arrangement issued by BNM via its guideline on Classification and Impairment Provisions for Loans/Financing, whereby collective assessment impairment allowance is maintained at a minimum of 1.5% of total outstanding loans, net of individual assessment allowance.

Where a loan is not recoverable, it is written off against the related allowance for loan impairment. Such loans are written off after the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of the amounts previously written off are recognised in the profit or loss.

An impairment loss in respect of available-for-sale financial assets is recognised in profit or loss and is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and the asset's current fair value, less any impairment loss previously recognised. Where a decline in the fair value of an available-for-sale financial asset has been recognised in the other comprehensive income, the cumulative loss in other comprehensive income is reclassified from equity and recognised to profit or loss.

An impairment loss in respect of unquoted equity instrument that is carried at cost is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Impairment losses recognised in profit or loss for an investment in an equity instrument is not reversed through profit or loss.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, to the extent that the asset's carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss.

2. Significant accounting policies (continued)

(d) Impairment (continued)

(ii) Non-financial assets

The carrying amounts of non-financial assets (except for deferred tax assets) are reviewed at the end of each reporting period to determine whether there is any indication of impairment.

If any such indication exists, then the asset's recoverable amount is estimated. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (groups of units) on a *pro rata* basis.

Impairment losses recognised in prior periods are assessed at the end of each reporting period 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 since the last impairment loss was recognised. An impairment loss is reversed only to the extent that the assets' 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. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

2. Significant accounting policies (continued)

(e) Resale and repurchase agreements

Securities purchased under resale agreements are securities which the Bank commits to resell at future dates and is reflected as an asset.

Obligations on securities sold under repurchase agreements are obligations which the Bank commits to repurchase at future dates and is reflected as a liability.

(f) Plant and equipment

(i) Recognition and measurement

Items of plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets also includes the cost of materials and direct labour.

Cost also may include transfers from other comprehensive income of any gain or loss on qualifying cash flow hedges of foreign currency purchases of plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

Gains and losses on disposal of an item of plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of plant and equipment and are recognised net within "other income" and "other expenses" respectively in profit or loss.

2. Significant accounting policies (continued)

(f) Plant and equipment (continued)

(ii) Subsequent costs

The cost of replacing part of an item of plant and 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 Group or the Bank, and its cost can be measured reliably. The carrying amount of the replaced part is derecognised to profit or loss. The costs of the day-to-day servicing of plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group or the Bank will obtain ownership by the end of the lease term. The estimated useful lives for the current and comparative periods are as follows:

Computer equipment and software	3 – 5 years
Motor vehicles	4 – 5 years
Office equipment	4 – 10 years
Furniture and fittings	5 – 10 years
Renovations	5 – 10 years

Depreciation methods, useful lives and residual values are reviewed, and adjusted as appropriate at end of the reporting period.

(g) Tax expense

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

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

2. Significant accounting policies (continued)

(g) Tax expense (continued)

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases.

Deferred tax is measured at the tax rates that are expected to apply to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(h) Recognition of interest and financing income and expense

Interest and financing income and expense for all interest-bearing financial instruments are recognised in the statement of comprehensive income using the effective interest rates of the financial assets or financial liabilities to which they relate.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability, or where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group and the Bank estimates cash flows considering all contractual terms of the financial instrument but not future credit losses. The calculation includes all amounts paid or received by the Bank that are an integral part of the effective interest rate, including transaction costs and all other premiums or discounts.

(i) Recognition of fees and other income

Loan arrangement fees and commissions are recognised as income when all conditions precedent are fulfilled.

Commitment fees and guarantee fees which are material are recognised as income based on time apportionment.

Dividends from securities are recognised when the right to receive payment is established.

2. Significant accounting policies (continued)

(j) Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transaction.

Monetary assets and liabilities denominated in foreign currencies at reporting period are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in the statement of comprehensive income.

(k) Employee benefits

(i) Short-term benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees of the Group. Short-term accumulating compensated absences such as paid annual leaves are recognised when services are rendered by employees that increases their entitlement to future compensated absences, and short-term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(ii) Defined contribution plan

As required by law, companies in Malaysia make contributions to the state pension scheme, the Employees' Provident Fund ("EPF"). Such contributions are recognised as expense in the statement of comprehensive income as incurred.

2. Significant accounting policies (continued)

(l) Operating lease

Leases, where the Group and the Bank do not assume substantially all the risks and rewards of ownership are classified as operating leases and, except for property interest held under operating lease, the leased assets are not recognised on the Group's statement of financial position.

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

(m) Provisions

A provision is recognised if, as a result of a past event, the Group and the Bank have 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. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

3. Cash and short-term funds

	Group and Bank	
	2010 RM'000	2009 RM'000
Cash and balances with banks and other financial institutions	234,912	464,858
Money at call and deposit placements maturing within one month	5,170,991	3,928,562
	5,405,903	4,393,420

4. Financial assets held-for-trading

	Group and Bank 2010 RM'000	Group and Bank 2009 RM'000
At fair value		
Malaysian Government Securities	476,212	360,016
Malaysian Investment Issue	4,041	4,125
Bank Negara Malaysia Bills	396,933	611,947
Cagamas bonds	6,534	6,357
Khazanah bonds	-	28,974
Negotiable instruments of deposit	230,000	300,000
Private debt securities	242	115,242
	1,113,962	1,426,661

5. Financial investments available-for-sale

	Group and Bank 2010 RM'000	Group and Bank 2009 RM'000
At fair value		
Quoted securities	7,473	5,605
At cost		
Unquoted securities	1,591	-
	9,064	5,605

6. Financial investments held-to-maturity

	Group and Bank 2010 RM'000	Group and Bank 2009 RM'000
At cost		
Unquoted securities	-	1,591
	-	1,591

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7. Loans, advances and financing

	Group and Bank	
	2010	2009
	RM'000	RM'000
At amortised cost		
Overdrafts	95,519	49,088
Term loans - housing loans	31,934	34,754
- other term loans	122,426	134,431
Bills receivable	54,249	66,091
Claims on customers under acceptance credits	471,361	525,864
Staff loans	3,554	4,502
	779,043	814,730
Unearned interest	(1,276)	(1,929)
Gross loans, advances and financing	777,767	812,801
Allowance for impaired loans and financing		
- Collective assessment	(23,946)	-
- Individual assessment	(3,419)	-
- General	-	(23,946)
- Specific	-	(52)
Net loans, advances and financing	750,402	788,803

The maturity structure of gross loans, advances and financing are as follows:-

	Group and Bank	
	2010	2009
	RM'000	RM'000
Maturing within one year	738,584	777,410
One year to three years	809	732
Three years to five years	4,946	1,074
Over five years	33,428	33,585
	777,767	812,801

7. Loans, advances and financing (continued)

Gross loans, advances and financing analysed by type of customer are as follows:

	Group and Bank	
	2010	2009
	RM'000	RM'000
Domestic business enterprises - others	692,269	707,442
Individuals	35,524	39,268
Foreign entities	49,974	66,091
	777,767	812,801

Gross loans, advances and financing analysed by interest/profit rate sensitivity are as follows:

	Group and Bank	
	2010	2009
	RM'000	RM'000
Fixed rate		
- Other fixed rate loan/financing	3,554	4,502
Variable rate		
- Base lending rate plus	77,265	66,943
- Cost plus	696,851	738,874
- Other variable rates	97	2,482
	777,767	812,801

Gross loans, advances and financing analysed by their economic purpose are as follows:

	Group and Bank	
	2010	2009
	RM'000	RM'000
Mining	355	-
Manufacturing	426,620	356,647
Electricity, gas and water	7,102	-
Construction	39,381	94,436
Purchase of landed property		
- residential	34,883	38,523
Wholesale & retail trade and restaurants & hotel	151,122	146,935
Finance, insurance and business services	116,208	101,447
Purchase of transport vehicles	93	175
Others	2,003	74,638
	777,767	812,801

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7. Loans, advances and financing (continued)

Movements in impaired loans, advances and financing are as follows:

	Group and Bank 2010 RM'000	Group and Bank 2009 RM'000
Balance at 1 January		
- as previously stated	8,799	8,511
- effect of adopting FRS 139	5,754	-
	14,553	8,511
Classified as impaired during the year	2,998	4,934
Reclassified as non-impaired during the year	(2,458)	(2,470)
Amounts recovered	(2,458)	(2,108)
Amounts written off	(1,136)	(68)
At 31 December 2010	11,499	8,799
Gross impaired loans as a percentage of gross loans, advances and financing	1.48%	1.08%

Movements in the allowance for impaired loans, advances and financing are as follows:

	Group and Bank 2010 RM'000	Group and Bank 2009 RM'000
Collective assessment allowance		
At 1 January		
- as previously stated	-	-
- effect of adopting FRS 139	23,946	-
At 1 January, as restated	23,946	-
Allowance made during the period/year	-	-
Amount written off	-	-
At 31 December 2010	23,946	-
General allowance:		
At 1 January		
- as previously stated	23,946	23,946
- effect of adopting FRS 139	(23,946)	-
At 1 January, as restated	-	23,946

7. Loans, advances and financing (continued)

	Group and Bank 2010 RM'000	Group and Bank 2009 RM'000
Individual assessment allowance		
At 1 January		
- as previously stated	-	-
- effect of adopting FRS 139	6,527	-
At 1 January, as restated	6,527	-
Allowance made during the period/year	1,066	-
Amount written off	(1,136)	-
Amount recovered	(3,038)	-
At 31 December 2010	3,419	-
Specific allowance:		
At 1 January		
- as previously stated	52	95
- effect of adopting FRS 139	(52)	-
At 1 January, as restated	-	95
Amounts recovered	-	(19)
Amounts written off	-	(68)
Allowance made during the year	-	44
At 31 December 2010	-	52

Impaired loans, advances and financing analysed by economic purposes are as follows:

	Group and Bank 2010 RM'000	Group and Bank 2009 RM'000
Manufacturing	5,140	2,516
Purchase of landed properties - residential	6,318	6,252
Others	41	31
	11,499	8,799

8. Other assets

	Group and Bank	
	2010	2009
	RM'000	RM'000
Interest/Income receivable	10,997	13,509
Margin placed with exchange	3,245	3,334
Derivatives	1,398,112	1,145,612
Other debtors, deposits and prepayments	371,642	342,023
	1,783,996	1,504,478

9. Statutory deposit with Bank Negara Malaysia

The non-interest bearing statutory deposit is maintained with Bank Negara Malaysia in compliance with Section 37(1)(c) of the Central Bank of Malaysia Act 1958 (revised - 1994), the amount of which is determined as a set percentage of total eligible liabilities.

10. Investments in subsidiary companies

	Bank	
	2010	2009
	RM'000	RM'000
Unquoted shares, at cost	20	20

Details of subsidiary companies are as follows:-

Name	Principal activity	Effective Interest	
		2010	2009
DB (Malaysia) Nominee (Tempatan) Sendirian Berhad	Nominee services	100%	100%
DB (Malaysia) Nominee (Asing) Sdn. Bhd.	Nominee services	100%	100%

All income and expenditure of the subsidiary companies have been taken up by the Bank.

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11. Plant and equipment

Group and Bank	Renovations RM'000	Office equipment RM'000	Computer equipment and software RM'000	Furniture and fittings RM'000	Motor vehicles RM'000	Total RM'000
Cost						
At 1 January 2009	9,473	4,132	12,489	3,315	468	29,877
Additions	56	100	236	12	-	404
Write-offs	-	(5)	-	-	-	(5)
Reclassifications	(1)	(11)	11	-	1	-
At 31 December 2009/ 1 January 2010	9,528	4,216	12,736	3,327	469	30,276
Additions	151	52	1,054	15	445	1,717
Write-offs	-	-	(935)	-	-	(935)
Disposals	-	(11)	-	-	(389)	(400)
At 31 December 2010	9,679	4,257	12,855	3,342	525	30,658
Accumulated depreciation						
At 1 January 2009	7,509	3,061	9,827	3,007	390	23,794
Charge for the year	1,019	227	1,436	65	78	2,825
Write-offs	-	(5)	-	-	-	(5)
Reclassification	(1)	192	(160)	(32)	1	-
At 31 December 2009/ 1 January 2010	8,527	3,475	11,103	3,040	469	26,614
Charge for the year	501	169	1,093	62	45	1,870
Write-offs	-	-	(935)	-	-	(935)
Disposals	-	(11)	-	-	(389)	(400)
At 31 December 2010	9,028	3,633	11,261	3,102	125	27,149
Carrying amounts						
At 1 January 2009	1,964	1,071	2,662	308	78	6,083
At 31 December 2009/ 1 January 2010	1,001	741	1,633	287	-	3,662
At 31 December 2010	651	624	1,594	240	400	3,509

12. Deferred tax assets

The recognised net deferred tax assets comprise the following items:-

	Group and Bank	
	2010	2009
	RM'000	RM'000
Recognised in profit or loss		
Plant and equipment		
- capital allowances	(278)	(373)
Collective assessment / General allowance for loans	5,987	5,987
Others	51,264	10,620
	56,973	16,234
Recognised in other comprehensive income		
Revaluation of securities available-for-sale	(1,418)	(950)
	55,555	15,284

The components and movements in deferred tax assets and liabilities during financial year are as follows:

	Group and Bank	
	2010	2009
	RM'000	RM'000
At 1 January	15,284	20,856
Origination and reversal of temporary differences		
- recognised in profit or loss	40,739	(5,572)
- recognised in other comprehensive income	(468)	-
At 31 December	55,555	15,284

13. Deposits from customers

	Group		Bank	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
Demand deposits	1,606,341	1,042,180	1,606,361	1,042,200
Savings deposits	10,359	10,627	10,359	10,627
Fixed deposits	708,157	729,392	708,157	729,392
Other deposits	3,100,446	3,736,880	3,100,446	3,736,880
Negotiable instruments of deposit	85,600	101,100	85,600	101,100
	5,510,903	5,620,179	5,510,923	5,620,199

The maturity structure of fixed deposits, other deposits and negotiable instruments of deposit, are as follows:-

	Group and Bank	
	2010	2009
	RM'000	RM'000
Due within six months	2,041,152	2,897,336
More than six months to one year	85,859	332,936
More than one year to three years	1,166,376	187,100
More than three years to five years	360,000	1,100,000
More than five years	240,816	50,000
	3,894,203	4,567,372

The deposits are sourced from the following types of customers:

	Group		Bank	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
Business enterprises	3,011,383	3,022,896	3,011,403	3,022,916
Individuals	50,364	54,104	50,364	54,104
Foreign customers	78,078	92,882	78,078	92,882
Others	2,371,078	2,450,297	2,371,078	2,450,297
	5,510,903	5,620,179	5,510,923	5,620,199

14. Deposits and placements of banks and other financial institutions

	Group and Bank 2010 RM'000	2009 RM'000
Other financial institutions	1,265,895	1,572,162
	1,265,895	1,572,162

15. Other liabilities

	Group and Bank 2010 RM'000	2009 RM'000
Interest payable	3,270	12,056
Bills payable	134,357	115,747
Derivatives	1,411,366	986,213
Employee benefits	27,828	31,883
Other liabilities	447,253	635,517
	2,024,074	1,781,416

16. Share capital

	Number of shares		Amount	
Group and Bank	**2010 '000**	**2009 '000**	**2010 RM'000**	**2009 RM'000**
Authorised:				
Ordinary shares of RM1 each	200,000	200,000	200,000	200,000
Issued and fully paid:				
At 31 December	173,599	173,599	173,599	173,599

17. Reserves

	Group and Bank	
	2010	**2009**
	RM'000	**RM'000**
Non-distributable:		
Share premium	357,763	357,763
Statutory reserve	174,722	174,722
Revaluation reserve	4,253	2,853
	178,975	177,575
Distributable:		
Retained profits	630,790	480,603
	1,167,528	1,015,941

The statutory reserve is maintained in compliance with Section 36 of the Banking and Financial Institutions Act, 1989 and is not distributable as cash dividends.

The revaluation reserve is in respect of unrealised fair value gains and losses on securities available-for-sale.

Subject to agreement by the Inland Revenue Board, the Bank has sufficient tax credit under Section 108 of the Income Tax Act, 1967 and tax exempt income to frank the payment of dividends out of all of its retained profits as at 31 December 2010.

The Financial Act, 2007 introduced a single tier company income tax system with effect from year of assessment 2008. As such, the Section 108 tax credit as at 31 December 2010 will be available to the Bank until such time the credit is fully utilised or upon expiry of the six-year transitional period on 31 December 2013, whichever is earlier.

18. Interest income

	Group and Bank	
	2010	**2009**
	RM'000	**RM'000**
Loans and advances		
- Interest income other than recoveries from impaired / non-performing loans	28,017	32,095
- Recoveries from impaired / non-performing loans	-	1,831
Money at call and deposit placements with financial institutions	17,738	18,148
Securities purchased under resale agreement	133,060	107,715
Financial assets held-for-trading	49,203	28,031
Others	1	3
	228,019	187,823

19. Interest expense

	Group and Bank 2010 RM'000	Group and Bank 2009 RM'000
Deposits and placements of banks and other financial institutions	3,527	2,639
Obligations on securities sold under repurchase agreement	50,919	2,546
Deposits from customers	49,713	57,938
Others	10	53
	104,169	63,176

20. Non-interest income

	Group and Bank 2010 RM'000	Group and Bank 2009 RM'000
Fee income:		
Commissions	6,784	5,752
Service charges and fees	10,189	7,305
Guarantee fees	2,843	2,449
Arranger fees	300	-
	20,116	15,506
Gains/ (losses) arising from sale of financial assets held-for-trading	4,782	(13,066)
Net gains arising from trading in derivatives	253,942	136,957
Net unrealised losses on revaluation of trading portfolio (including derivatives)	(300,332)	(182,317)
Net gains arising from dealing in foreign exchange	50,533	229,381
Unrealised gains/ (losses) from foreign exchange translation	143,289	(58,544)
Gross dividends from financial investments held-to-maturity	285	196
Gain on disposal of plant and equipment	172	-
Other operating income, net	12,433	944
	165,104	113,551
	185,220	129,057

21. Other operating expenses

	Group and Bank	
	2010	2009
	RM'000	RM'000
Personnel costs		
- Salaries, allowances and bonuses	50,047	46,688
- Contributions to Employees' Provident Fund	6,558	6,773
- Others	5,224	5,081
Establishment costs		
- Rental	2,708	2,421
- Depreciation	1,870	2,825
- Others	3,984	4,734
Marketing expenses	2,286	1,822
Administration and general expenses		
- Intercompany expenses	41,282	30,351
- Communication	1,516	1,450
- Auditors' remuneration		
- statutory audit fee	136	105
- other services	83	74
- Others	7,935	6,316
	123,629	108,640

The number of employees of the Group and the Bank at the end of the year was 149 (2009: 147).

22. Allowance for impairment on loans, advances and financing

	Group and Bank	
	2010	2009
	RM'000	RM'000
Allowance for impaired loans, advances and financing		
Individual assessment allowance	(1,066)	-
Specific allowance		
- Provided for the financial year	-	(44)
- Written back	-	19
Impaired loans and financing		
- Recovered	3,038	11
	1,972	(14)

23. Related parties

Identity of related parties

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

The Group has a related party relationship with its holding company, subsidiaries (Note 10), other related companies, Directors and key management personnel.

Transactions with key management personnel

Key management personnel compensation

Key management personnel compensation is disclosed in Note 24.

Other significant related party transactions and balances of the Bank are as follows:-

2010	**Holding company RM'000**	**Subsidiary companies RM'000**	**Other related companies RM'000**
Income			
Interest on advances and deposits	5,407	-	-
Other fee income	5,131		
Other operating income	32,108	-	-
	42,646	-	-
Expenditure			
Interest on advances	52,991	-	-
Other operating expenses	18,082	-	-
Administration and general expenses	41,685	-	-
	112,758	-	-
Amount due from			
Cash and short-term funds	4,638,445	-	-
Other assets - Others	108,509	-	-
- Derivatives	595,053	-	-
- Interest income receivable	110	-	-
	5,342,117	-	-

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23. Related parties (continued)

2010	Holding company RM'000	Subsidiary companies RM'000	Other related companies RM'000
Amount due to			
Deposits and placements of banks and other financial institutions	985,599	20	19,701
Obligations on securities sold under repurchase agreements	-	-	1,190,285
Other liabilities - Others	117,100	-	(139)
- Derivatives	616,256	-	199
- Interest payable	1,207	-	-
	1,720,162	20	1,210,046

2009	Holding company RM'000	Subsidiary companies RM'000	Other related companies RM'000
Income			
Interest on advances and deposits	3,691	-	-
Other fee income	317	-	-
Other operating income	31,301	-	-
	35,309	-	-
Expenditure			
Interest on advances	2,144	-	-
Other operating expenses	25,250	-	-
Administration and general expenses	30,445	-	-
	57,839	-	-
Amount due from			
Cash and short-term funds	3,615,604	-	-
Other assets - Others	35,605	-	-
- Derivatives	291,592	-	-
	3,942,801	-	-
Amount due to			
Deposits and placements of banks and other financial institutions	1,560,753	20	16,778
Obligations on securities sold under repurchase agreements	1,056,596	-	-
Other liabilities - Others	177,504	-	-
- Derivatives	234,021	-	-
	3,028,874	20	16,778

23. Related parties (continued)

All outstanding balances with these related parties are priced on an arm's length basis and are to be settled in cash within six months of the reporting date. None of the balances is secured.

Credit transactions and exposures with connected parties

	Group and Bank	
	2010	**2009**
	RM'000	**RM'000**
Outstanding credit exposures with connected parties	497,876	528,024
Of which:		
Total credit exposure which is non-performing	-	-
Total credit exposures	6,141,147	5,395,442
Percentage of outstanding credit exposures to connected parties		
- as a proportion of total credit exposures	8.11%	9.79%
- as a proportion of capital base	38.14%	44.17%
- which is non-performing	0%	0%

Credit transactions and exposures to connected parties as disclosed above includes the extension of credit facilities and/or off-balance sheet credit exposures such as guarantees, trade-related facilities and loan commitments. It also includes holdings of equities and private debt securities issued by the connected parties.

The credit transactions with connected parties above are all transacted on an arm's length basis and on terms and conditions no more favourable than those entered into with other counterparties with similar circumstances and credit worthiness. Due care has been taken to ensure that the credit worthiness of the connected party is not less than that normally required of other persons.

24. Key management personnel compensation

The key management personnel compensations are as follows:-

	Group and Bank	
	2010	**2009**
	RM'000	**RM'000**
Executive Director		
- Salary and other remuneration	1,815	1,548
- Bonuses	1,832	1,915
- Benefits-in-kind	79	84
Non-Executive Directors		
- Fees	970	720
- Other remuneration	116	88
	4,812	4,355
Other key management personnel:		
- Short-term employee benefits	6,993	4,781
- Share-based payments	377	248
	7,370	5,029

Other key management personnel comprise persons other than the Directors of Group entities, having authority and responsibility for planning, directing and controlling the activities of the entity either directly or indirectly.

Details of the directors' remuneration are disclosed in Directors' report.

25. Taxation

	Group and Bank	
	2010	**2009**
	RM'000	**RM'000**
Current income tax		
Malaysian income tax - current	90,000	35,000
- prior year overprovision	(1,538)	(4,487)
Deferred tax expense		
Origination and reversal of temporary differences	(41,259)	2,433
Prior year under provision	520	2,450
	47,723	35,396

25. Taxation (continued)

	Group and Bank	
	2010	2009
	RM'000	RM'000
Reconciliation of effective tax expense		
Profit before taxation	188,555	145,388
Taxation	(47,723)	(35,396)
Profit after tax	140,832	109,992
Tax at Malaysian tax rate of 25%	47,139	36,347
Non-deductible expenses	499	889
Other items	1,103	2,647
	48,741	39,883
Overprovision in prior year	(1,018)	(4,487)
	47,723	35,396

26. Earnings per share

Basic/diluted earnings per share

The calculation of basic/diluted earnings per share is based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding calculated as follows:

	Group and Bank	
	2010	2009
	RM'000	RM'000
Profits attributable to ordinary shareholders	140,832	109,992
Weighted average number of ordinary shares		
Issued ordinary shares as at 31 December	173,599	173,599

	Group and Bank	
	2010	2009
	(sen)	(sen)
Basic/diluted earnings per share	81.1	63.4

27. Contingent liabilities

As at 31 December 2010, there is a litigation in process against the Bank arising from an action by two companies, seeking specific damages amounting to RM1 million and general damages for which the amount is not quantifiable at this stage.

The information usually required by FRS137, Provision, Contingent Liabilities and Contingent Assets is not disclosed on the grounds that it can be expected to prejudice seriously the outcome of the litigation. The Bank intends to defend the action. Accordingly, no provision has been made in respect of this litigation.

28. Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	Group and Bank	
	2010	**2009**
	RM'000	**RM'000**
Less than one year	2,667	2,703
Between one and five years	432	5,405
	3,099	8,108

The Group leases office premise under operating lease. The lease typically runs for a period of 3 years, with an option to renew the lease after that date. None of the leases includes contingent rentals.

29. Capital adequacy

	Bank 2010 RM'000	Bank 2009 RM'000
Components of Tier 1 and Tier 2 capital are as follows:-		
Tier 1 capital		
Paid-up share capital	173,599	173,599
Share premium	357,763	357,763
Statutory reserve	174,722	174,722
Retained profits	630,790	480,603
Less: Deferred tax assets	(55,555)	(15,284)
Total Tier 1 capital	1,281,319	1,171,403
Tier 2 capital		
Collective assessment allowance	23,946	23,946
Total Capital	1,305,265	1,195,349
Less: Investments in subsidiary companies	(20)	(20)
Capital base	1,305,245	1,195,329
Core capital ratio	16.89%	14.97%
Risk-weighted capital ratio	17.20%	15.27%

The capital adequacy ratios of the Group and of the Bank are computed in accordance with Bank Negara Malaysia's revised Risk-weighted Capital Adequacy Framework (RWCAF-Basel II). The Group and the Bank have adopted the Standardised Approach for Credit Risk and Market Risk, and the Basic Indicator Approach for Operational Risk. The minimum regulatory capital adequacy requirement is 8% for the risk-weighted capital ratio.

The breakdown of risk-weighted assets ("RWA") by each major risk category is as follows:

RISK TYPE		Risk Weighted Assets 2010 RM'000	Risk Weighted Assets 2009 RM'000
1	Credit risk	2,975,773	2,656,637
2	Market risk	4,073,491	4,696,811
3	Operational risk	537,600	472,185
Total		**7,586,864**	**7,825,633**

30. Commitments and contingencies

The Off-Balance Sheet exposures and their related counterparty credit risk of the Group and of the Bank are as follows:

31 December 2010 Group and Bank	Principal Amount	Credit Equivalent Amount	Risk Weighted Assets
	RM'000	RM'000	RM'000
Direct Credit Substitutes	130	130	130
Transaction Related Contingent Items	659,330	329,665	274,870
Short-Term Self Liquidating Trade Related Contingencies	96,414	19,283	13,743
Foreign exchange related contracts			
One year or less	13,969,651	365,175	156,652
Over one year to five years	6,557,114	601,886	241,074
Over five years	4,523,770	962,585	497,521
Interest/Profit rate related contracts			
One year or less	23,946,381	83,232	18,564
Over one year to five years	42,633,653	1,282,927	376,926
Over five years	13,031,600	1,076,976	336,439
Equity related contracts			
One year or less	159,726	19,794	10,694
Over one year to five years	954,115	118,113	59,056
Over five years	72,401	8,902	4,451
Credit Derivative Contracts			
One year or less	-	-	-
Over one year to five years	49,336	6,574	3,287
Over five years	-	-	-
OTC Derivative transactions and credit derivative contracts subject to valid bilateral netting agreements	-	-	-
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	-	-	-
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	-	-	-
Any commitments that are unconditionally cancelled at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	1,255,921	-	-
Total	107,909,542	4,875,242	1,993,407

30. Commitments and contingencies (continued)

The Off-Balance Sheet exposures and their related counterparty credit risk of the Group and of the Bank are as follows (continued):

31 December 2009 Group and Bank	Principal Amount	Credit Equivalent Amount	Risk Weighted Assets
	RM'000	RM'000	RM'000
Direct Credit Substitutes	217	217	217
Transaction Related Contingent Items	526,813	263,406	180,855
Short-Term Self Liquidating Trade Related Contingencies	72,227	14,446	12,852
Foreign exchange related contracts			
One year or less	12,083,891	273,671	117,327
Over one year to five years	4,545,787	438,530	206,703
Over five years	2,436,469	400,134	286,303
Interest/Profit rate related contracts			
One year or less	28,162,897	120,766	22,958
Over one year to five years	41,295,752	1,532,782	388,506
Over five years	12,077,808	1,065,809	332,138
Equity related contracts			
One year or less	465,476	44,624	23,278
Over one year to five years	1,180,137	160,374	83,822
Over five years	51,546	8,371	4,032
Credit Derivative Contracts			
One year or less	-	-	-
Over one year to five years	81,409	1,381	690
Over five years	-	-	-
OTC Derivative transactions and credit derivative contracts subject to valid bilateral netting agreements	-	-	-
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	-	-	-
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	-	-	-
Any commitments that are unconditionally cancelled at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	991,484	-	-
Total	103,971,913	4,324,511	1,659,681

31. Capital Management

The wide variety of our businesses requires us to identify, measure, aggregate and allocate our capital among our businesses appropriately. We manage capital through a framework of principles, organisational structures as well as measurement and monitoring processes that are closely aligned with the activities of our group divisions. While our capital management continuously evolves and improves, there can be no assurance that all market developments, in particular those of extreme nature, can be fully anticipated at all times.

We manage our capital in a coordinated manner at all relevant levels within our organisation. This also holds true for our complex products which we typically manage within our framework established for trading exposures. The structure of our capital function is closely aligned with the structure of our group divisions.

The Group's and Bank's regulatory capital are determined under Bank Negara Malaysia's revised Risk-weighted Capital Adequacy Framework and their capital ratios have complied with the minimum requirements set under this guideline. Information on the Group's and Bank's capital adequacy ratios, regulatory minimum capital requirements and the components of capital base are disclosed in Note 29.

32. Risk management

The Deutsche Bank Group has extensive risk management procedures and policies in place. The identification, monitoring and management of all risks within the Group are integrated into the Group-wide risk management processes in order to optimise the risk mitigating effects of diversification. Risk management procedures and policies are the responsibility of the Group Risk Committee and encompass all types of risk which includes market risk, credit risk, operational risk and liquidity risk. These risks areas are actively managed by dedicated divisions such as the Group Market Risk Management Division, Group Credit Risk/Operational Risk Division and the Group Treasury Division respectively. The Board regularly reviews reports from the respective regional divisions and is made aware of the risk exposure of the Bank and its ongoing management at each board meeting.

32. Risk management (continued)

32.1 Categories of financial instruments

	Carrying Amount RM'000	L&R/ (OL) RM'000	FVTPL -HFT RM'000	AFS RM'000	HTM RM'000
Financial Assets					
Group					
2010					
Cash and short-term funds	5,405,903	5,405,903	-	-	-
Securities purchased under resale agreement	2,764,327	2,764,327	-	-	-
Financial assets held-for trading	1,113,962	-	1,113,962	-	-
Financial investments available-for-sale	9,064	-	-	9,064	-
Loans, advances and financing	750,402	750,402	-	-	-
Derivatives assets	1,398,112	-	1,398,112	-	-
Statutory deposit with Bank Negara Malaysia	225	225	-	-	-
	11,441,995	8,920,857	2,512,074	9,064	-
Financial Liabilities					
Group					
2010					
Deposits from customers	5,510,903	5,510,903	-	-	-
Deposits and placements of banks	1,265,895	1,265,895	-	-	-
Obligations on securities sold under repurchase agreements	1,711,212	1,711,212	-	-	-
Derivatives liabilities	1,411,366	-	1,411,366	-	-
	9,899,376	8,488,010	1,411,366	-	-

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32. Risk management (continued)

32.1 Categories of financial instruments (continued)

	Carrying Amount RM'000	L&R/ (OL) RM'000	FVTPL -HFT RM'000	AFS RM'000	HTM RM'000
Financial Assets					
Group					
2009					
Cash and short-term funds	4,393,420	4,393,420	-	-	-
Securities purchased under resale agreement	3,077,020	3,077,020	-	-	-
Financial assets held-for trading	1,426,661	-	1,426,661	-	-
Financial investments available-for-sale	5,605	-	-	5,605	-
Financial investments held-to-maturity	1,591	-	-	-	1,591
Loans, advances and financing	788,803	788,803	-	-	-
Derivatives assets	1,145,612	-	1,145,612	-	-
Statutory deposit with Bank Negara Malaysia	225	225	-	-	-
	10,838,937	8,259,468	2,572,273	5,605	1,591
Financial Liabilities					
Group					
2009					
Deposits from customers	5,620,179	5,620,179	-	-	-
Deposits and placements of banks	1,572,162	1,572,162	-	-	-
Obligations on securities sold under repurchase agreements	1,056,596	1,056,596	-	-	-
Derivatives liabilities	986,213	-	986,213	-	-
	9,235,150	8,248,937	986,213	-	-

The above disclosure remains appropriate for the Bank level except that included in the deposits from customers is RM20,000 cash consolidated from the subsidiaries.

32. Risk management (continued)

32.2 Financial risks management

The Group has exposure to the following risks from its use of financial instruments:
- Credit risk
- Liquidity risk
- Market risk

Credit risk

Credit risk is the risk of any transactions giving rise to actual, contingent or potential claims against any counter-party, obligor or borrower, where the Bank bears the risk of loss if the borrower or counter-party defaults.

Risk management objectives, policies and processes for managing the risk

Policies for managing credit risk are determined by the Group Risk Committee, which also delegates credit authorities to independent Risk Officers. Divisional credit portfolio guidelines and credit strategies for the major industries are the principal instruments to determine the Bank's risk appetite. Product or customer specific policies provide the framework for the measurement and management of credit risk. Approval of credit limits and management of exposure takes place within the framework of portfolio guidelines and credit strategies.

Exposure to credit risk, credit quality and collateral

Principal exposures to credit risk in this regard are represented by the carrying amounts of investment and dealing securities, and loans and advances portfolios in the statement of financial position. The credit exposure arising from off balance sheet activities has been disclosed in Note 30 to the financial statements.

(a) Credit quality of gross loans, advances and financing

	Group and Bank	
	2010	**2009**
	RM'000	**RM'000**
Impaired	11,499	8,799
Past due but not impaired	10,422	10,619
Neither past due nor impaired	755,846	793,383
	777,767	812,801

32. Risk management (continued)

Credit risk (continued)

(a) Credit quality of gross loans, advances and financing (continued)

(i) Impaired loans

Loans are classified as impaired when they fulfill either of the following criteria:

(a) principal or interest or both are past due for three (3) months or more;
(b) where a loan is in arrears for less than three (3) months, the loan exhibits indications of credit weaknessess; or
(c) where an impaired loan has been rescheduled or restructured, the loan continues to be classified as impaired until repayments based on the revised and/or restructured terms have been observed continuously for a period of six (6) months.

In addition, for all loans that are considered individually significant, the Group assesses on a case-by-case basis at each reporting date whether there is any objective evidence that a loan is impaired. The criteria that the Group uses to determine that there is objective evidence of impairment include:

(a) any significant financial difficulty of the issuer or obligor;
(b) a breach of contract, such as a default or delinquency in interest or principal payments;
(c) high probability of bankruptcy or other financial reorganisation of the borrower;
(d) the viability of the customer's business operations and its capability to trade successfully out of financial difficulties and to generate sufficient cash flow to service its debt obligations; and
(e) any adverse news or developments affecting the local economic conditions or business environment of the borrower which will adversely affect the repayment capacity of the borrower.

32. Risk management (continued)

Credit risk (continued)

(a) Credit quality of gross loans, advances and financing (continued)

(ii) Past due but not impaired

Past due but not impaired loans are loans where the customer has failed to make a principal or interest payment when contractually due, and includes loans which are due one or more days after the contractual due date but less than three (3) months.

The past due but not impaired loans are analysed as follows:

	Loans and advances to customers	
	2010	**2009**
	RM'000	**RM'000**
Past due but not impaired		
1 day to < 60 days	3,623	3,654
60 days to < 90 days	6,799	6,965
Carrying amount	10,422	10,619

(iii) Neither past due nor impaired

As at reporting date, the Group and the Bank recorded loans, advances and financing that are neither past due nor impaired of RM755,846,000 (2009: RM793,383,000), of which RM701,596,000 (2009: RM727,292,000) and RM54,250,000 (2009: RM66,091,000) are loans and advances to customers and loans and advances to banks respectively.

No loan was renegotiated during the year.

32. Risk management (continued)

Credit risk (continued)

(b) Fair value of collateral held against loans, advances and financing to customers and banks

The Group and the Bank hold collateral against loans, advances and financing to customers in the form of mortgage interests over property and guarantees. Fair value of housing loans collaterals are assessed on yearly basis based on independent valuation.

The fair value of collateral held against loans, advances and financing to customers is as per below.

	Loans and advances to customers	
	2010	**2009**
	RM'000	**RM'000**
Against individually impaired:		
Property	7,726	8,087
Against past due but not impaired:		
Property	27,101	26,615
Against neither past due nor impaired:		
Property	23,157	27,486
	57,984	62,188

32. Risk management (continued)

Credit risk (continued)

(c) Credit quality of other financial instruments

Set out below is the credit quality of assets analysed by internal rating.

	Group		Bank	
	2010	**2009**	**2010**	**2009**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Financial assets held-for-trading				
Malaysian Government Securities	476,212	360,016	476,212	360,016
Malaysian Investment Issue	4,041	4,125	4,041	4,125
Bank Negara Malaysia Monetary Notes	257,118	487,278	257,118	487,278
Bank Negara Malaysia Bills	139,815	124,669	139,815	124,669
Corporate bonds:				
Rated AAA+ to AA-	-	115,000	-	115,000
Private debt securities - unrated	242	242	242	242
Negotiable instruments of deposit:				
Rated P1 to P3	230,000	300,000	230,000	300,000
Cagamas bonds				
Rated AAA+ to AA-	6,534	6,357	6,534	6,357
Khazanah bonds	-	28,974	-	28,974
Cash and short term funds:				
Bank and financial institution counterparties	5,405,903	4,393,420	5,405,903	4,393,420
Securities purchased under resale agreement:				
Bank and financial institution counterparties	2,764,327	3,077,020	2,764,327	3,077,020
Statutory deposit with Bank Negara Malaysia:				
Central Bank	225	225	225	225
Derivatives assets:				
Corporate counterparties	130,507	106,577	130,507	106,577
Bank and financial institution counterparties	1,242,841	1,039,035	1,242,841	1,039,035
Government counterparties	24,764	-	24,764	-
Financial investments available-for-sale				
Unrated	9,064	5,605	9,064	5,605
Financial investments held-to-maturity				
Unrated	-	1,591	-	1,591
Total	10,691,593	10,050,134	10,691,593	10,050,134

32. Risk management (continued)

Credit risk (continued)

(d) Fair value of collateral held against derivatives assets

The Group and the Bank hold collateral against derivatives assets to banks and financial institutions counterparties in the form of cash of RM104,346,000 (2009: RM213,524,000) as at reporting date.

Market risk

Market risk arises from the uncertainty concerning changes in market prices and rates (including interest rates, foreign exchange rates and equity prices), the correlations among them and their levels of volatility.

Risk management objectives, policies and processes for managing the risk

Deutsche Bank Global Group entities, including the Group and the Bank use a combination of risk sensitivities, Value at Risk (VaR), stress testing and economic capital metrics to manage market risks and establish limits. Steered by the Group Risk Committee, the Market Risk Management team, which is part of our independent risk management function, is responsible for managing the market risk of the Bank. Limits set appropriate to the risk appetite in terms of VaR are communicated to the appropriate personnel through the limits policy and current limit structure for each business division.

The majority of the interest rate and foreign exchange risks arising from our non-trading assets and liability positions has been transferred through internal hedges to Global Markets within our Bank and is thus managed on the basis of value-at-risk as reflected in our trading value-at-risk numbers. For the remaining risks that have not been transferred through those hedges, in general foreign exchange risk is mitigated through match funding the investment in the same currency.

32. Risk management (continued)

Market risk (continued)

Risk management objectives, policies and processes for managing the risk (continued)

A summary of the VaR position of the Bank's portfolios as at 31 December 2010 is as follows:

	At 31 December RM'000	Average RM'000	Maximum RM'000	Minimum RM'000
2010				
Interest Rate Risk:				
Market Risk	18,477	10,963	18,986	4,447
Specific Risk	89	131	1,934	2
Foreign exchange risk	3,265	4,210	14,507	291
Commodity Risk	-	2	6	-
Equity Risk	255	314	457	162
Total VaR	18,614	12,004	18,943	4,802
2009				
Interest Rate Risk:				
Market Risk	15,996	9,197	17,339	2,987
Specific Risk	111	35	359	-
Foreign exchange risk	5,009	5,249	12,712	427
Commodity Risk	3	98	338	-
Equity Risk	271	379	4,031	1
Total VaR	17,196	11,147	26,472	4,441

32. Risk management (continued)

Market risk (continued)

Value-at-risk model is subject to known limitations, including:

(a) The use of historical data may not be a good indicator of potential future events, particularly those that are extreme in nature. The "backward-looking" limitation can cause value-at-risk to understate risk, but can also cause it to be overstated.

(b) Assumptions concerning the distribution of changes in risk factors, and the correlation between the different risk factors, may not hold true, particularly during market events that are extreme in nature. While we believe our assumptions are reasonable, there is no standard value-at-risk methodology to follow. Difference assumptions will produce different results.

(c) The one day holding period does not fully capture the market risk arising during periods of illiquidity, when positions cannot be closed out or hedged within one day.

(d) Value-at-risk does not indicate the potential loss beyond the 99th quantile.

(e) Intra-day risk is not captured.

(f) Although we consider the material risks to be covered by our value-at-risk model and we further enhance it, there still may be risks in the trading book that are not covered by the value-at-risk model.

Liquidity risk

Liquidity risk is the risk to a bank's earnings and capital arising from the inability to timely meet obligations when they come due without incurring unacceptable losses.

Risk management objectives, policies and processes for managing the risk

Liquidity risk is managed through the Asset and Liability Committee ("ALCO"). This committee, chaired by Treasury, is responsible for both statutory and prudential liquidity.

Liquidity risk is monitored through the Bank Negara Malaysia New Liquidity Framework and the internal liquidity risk management policy. A prudent liquidity limit setting process includes maximum cash outflow ("MCO") limits and unsecured funding limits. Both limits are reviewed on a regular basis and can be quickly adjusted to changing (market) circumstances.

32. Risk management (continued)

Liquidity Risk (continued)

(a) Maturity analysis of financial liabilities based on remaining contractual maturity

The following table presents a maturity analysis for financial liabilities as at 31 December, 2010 and 2009.

Group	Up to 7 Days RM'000	> 7 Days – 1 Month RM'000	> 1-3 Months RM'000	> 3-6 Months RM'000	> 6-12 Months RM'000	> 1 Year RM'000	Total RM'000
2010							
Deposits from customers	2,963,143	559,152	107,759	27,798	85,860	1,767,191	5,510,903
Deposits and placements of banks and other financial institutions	1,261,110	4,785	-	-	-	-	1,265,895
Obligations on securities sold under repurchase agreements	504,114	978,068	229,030	-	-	-	1,711,212
Derivative liabilities	14,595	20,181	35,977	139,641	31,726	1,169,246	1,411,366
Other liabilities	422,406	1,067	292	214	512	188,217	612,708
Total Liabilities	5,165,368	1,563,253	373,058	167,653	118,098	3,124,654	10,512,084

32. Risk management (continued)

Liquidity Risk (continued)

(a) Maturity analysis of financial liabilities based on remaining contractual maturity (continued)

Group	Up to 7 Days RM'000	> 7 Days – 1 Month RM'000	> 1-3 Months RM'000	> 3-6 Months RM'000	> 6-12 Months RM'000	> 1 Year RM'000	Total RM'000
2009							
Deposits from customers	2,826,260	986,304	109,286	28,293	332,936	1,337,100	5,620,179
Deposits and placements of banks and other financial institutions	1,192,615	379,547	-	-	-	-	1,572,162
Obligations on securities sold under repurchase agreements	-	343,296	713,300	-	-	-	1,056,596
Derivative liabilities	522,567	-	424,193	10,186	7,656	21,611	986,213
Other liabilities	740,964	-	23,782	-	30,454	3	795,203
Total Liabilities	5,282,406	1,709,147	1,270,561	38,479	371,046	1,358,714	10,030,353

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32. Risk management (continued)

Liquidity Risk (continued)

(a) Maturity analysis of financial liabilities based on remaining contractual maturity (continued)

Bank	**Up to 7 Days RM'000**	**> 7 Days – 1 Month RM'000**	**> 1-3 Months RM'000**	**> 3-6 Months RM'000**	**> 6-12 Months RM'000**	**> 1 Year RM'000**	**Total RM'000**
2010							
Deposits from customers	2,963,163	559,152	107,759	27,798	85,860	1,767,191	5,510,923
Deposits and placements of banks and other financial institutions	1,261,110	4,785	-	-	-	-	1,265,895
Obligations on securities sold under repurchase agreements	504,114	978,068	229,030	-	-	-	1,711,212
Derivative liabilities	14,595	20,181	35,977	139,641	31,726	1,169,246	1,411,366
Other liabilities	422,406	1,067	292	214	512	188,217	612,708
Total Liabilities	5,165,388	1,563,253	373,058	167,653	118,098	3,124,654	10,512,104

32. Risk management (continued)

Liquidity Risk (continued)

(a) Maturity analysis of financial liabilities based on remaining contractual maturity (continued)

Bank	**Up to 7 Days RM'000**	**> 7 Days – 1 Month RM'000**	**> 1-3 Months RM'000**	**> 3-6 Months RM'000**	**> 6-12 Months RM'000**	**> 1 Year RM'000**	**Total RM'000**
2009							
Deposits from customers	2,826,280	986,304	109,286	28,293	332,936	1,337,100	5,620,199
Deposits and placements of banks and other financial institutions	1,192,615	379,547	-	-	-	-	1,572,162
Obligations on securities sold under repurchase agreements	-	343,296	713,300	-	-	-	1,056,596
Derivative liabilities	522,567	-	424,193	10,186	7,656	21,611	986,213
Other liabilities	740,964	-	23,782	-	30,454	3	795,203
Total Liabilities	5,282,426	1,709,147	1,270,561	38,479	371,046	1,358,714	10,030,373

32. Risk management (continued)

Operational risk

Operational risk refers to the potential for incurring losses in relation to employees, contractual specifications and documentation, technology, infrastructure failure and disasters, external influences and customer relationships. This definition includes legal risk, but excludes strategic (business) and reputation risks.

Each Business Division is responsible for implementing the Operational Risk Management Framework globally, encompassing all regions and countries in which the division operates. The implementation includes an operational risk governance structure at the divisional level, operational risk and loss reporting and escalation procedures, and the use of operational data and information for management purposes. Based on this business partnership model the Bank ensure a close monitoring and high awareness for operational risk.

33. Fair values of financial assets and liabilities

In respect of cash and short term funds, securities purchased under resale agreement, deposits and placements with financial institutions, deposits from customers, deposits and placements of banks and other financial institutions, obligations on securities sold under repurchase agreements and bills and acceptances payable, the carrying amounts in the statement of financial positions approximate their fair values due to the relatively short term nature of these financial instruments. The fair values of other assets and other liabilities which are considered short-term in nature are estimated to be approximate their carrying values.

The fair values of other financial assets and financial liabilities, together with the carrying amounts shown in the statement of financial positions, are as follows:

	Group			
	2010		2009	
	Carrying Value RM'000	Fair Value RM'000	Carrying Value RM'000	Fair Value RM'000
Financial assets				
Financial assets held-for-trading	1,113,962	1,113,962	1,426,661	1,426,661
Financial investments available-for-sale	9,064	9,064	5,605	5,605
Financial investments held-to-maturity	-	-	1,591	1,591
Loans, advances and financing	750,402	750,222	788,803	788,668

33. Fair values of financial assets and liabilities (continued)

	Group			
	2010		2009	
	Carrying Value RM'000	Fair Value RM'000	Carrying Value RM'000	Fair Value RM'000
Financial Liabilities				
Deposits from customers	5,510,903	5,444,480	5,620,179	5,556,403
Deposits and placements of banks and other financial institutions	1,265,895	1,265,895	1,572,162	1,572,162

The methods and assumptions used in estimating the fair values of financial statements are as follows:

(a) *Financial assets held-for-trading, financial investments held-to-maturity and financial investments available-for-sale* - The fair values are estimated based on quoted or observable market prices as at the reporting date. Where such quoted or observable market price are not available, the fair values are estimated using pricing models or discounted cash flow techniques. Where discounted cash flow technique is used, the expected future cash flows are discounted using prevailing market rates for similar instruments as at reporting date.

(b) *Loans, advances and financing* - The fair values of fixed rate loans with remaining maturity of less than one year and variable rate loans are estimated to approximate their carrying values. For fixed rate loans with maturities of more than one year, the fair values are estimated based on expected future cash flows of contractual installment payments and discounted at prevailing rates at reporting date offered for similar loans. In respect of impaired loans, the fair values are deemed to approximate the carrying values, net of individual assessment provision for impaired debts and financing.

(c) *Deposits and placements from customers, banks and other financial institutions* - The fair values for deposit liabilities payable on demand (demand and savings deposits) or with remaining maturities of less than one year are estimated to approximate their carrying values at reporting date. The fair values of fixed deposits with remaining maturities of more than one year are estimated based on discounted cash flows using rates currently offered for deposits of similar remaining maturities. For negotiable instrument of deposits, the estimated fair values are based on quoted or observable market prices at the reporting date. Where such quoted or observable market prices are not available, the fair values of negotiable instruments of deposit are estimated using discounted cash flow techniques.

33. Fair values of financial assets and liabilities (continued)

(d) Derivative financial instruments – The fair values of derivative financial instruments are obtained from quoted market rates in active markets, including recent market transactions and valuation techniques

The following table shows the notional and gross market values as at December 2010:

	Group and Bank 2010		
	Notional RM'000	**Positive market value RM'000**	**Negative market value RM'000**
Foreign exchange related contracts			
Forward exchange trades	14,072,341	244,184	(111,677)
Cross currency swaps	9,717,996	573,390	(558,236)
Foreign exchange options	1,260,198	4,058	(125,283)
Interest/Profit rate related contracts			
Swaption	343,552	766	(6,543)
Interest rate swap	79,268,082	512,328	(591,175)
Equity related contracts			
Equity	1,235,578	63,386	(18,452)
	105,897,747	1,398,112	(1,411,366)

33. Fair values of financial assets and liabilities (continued)

The following table shows the notional and gross market values as at December 2009:

	Group and Bank 2009		
	Notional RM'000	Positive market value RM'000	Negative market value RM'000
Foreign exchange related contracts			
Forward exchange trades	11,987,747	78,891	(86,499)
Cross currency swaps	6,632,601	173,947	(256,819)
Foreign exchange options	445,798	22,678	(7,661)
Interest/Profit rate related contracts			
Swaption	110,000	81	(4,374)
Interest rate swap	81,426,457	788,752	(597,932)
Equity related contracts			
Equity	1,778,569	81,263	(32,928)
	102,381,172	1,145,612	(986,213)

34. Equity compensation benefits

The Bank participates in the following share and options compensation plans operated by Deutsche Bank AG ("DB").

Share Plans

All awards represent a contingent right to receive Deutsche Bank common shares after a specified period of time. The award recipient is not entitled to receive dividends before the settlement of the award.

Deutsche Bank Share Scheme

Under the Deutsche Bank Share Scheme, selected employees are granted deferred share rights to receive DB shares at a specific future date. These may be granted as part of annual bonuses or as exceptional awards in the case of sign-ons, buy-outs or as retention incentives. The compensation expense is recognised on a straight line basis over the vesting period, which is generally three years for the annual awards.

34. Equity compensation benefits (continued)

DB Restricted Equity Unit Plan

Under the DB Restricted Equity Unit Plan ("REU"), selected employees are granted deferred share rights to receive DB shares at specific future dates as a retention incentive. The compensation expense is recognised on a straight line basis over the vesting period, which is generally four to five years. In the event that employment is terminated before the vesting date, plan rules may allow employees to retain their awards subject to the fulfilment of certain conditions, such as the tenure of service and the reason for termination. In this case, the amortisation period is shortened to till the end of the employees' service or in the case where an employee is eligible for career retirement, till the date of career retirement eligibility. The selected employees are also granted exceptional awards as a component of the Restricted Equity Units as an additional retention incentive that is forfeited if the participant terminates employment for any reason prior to the end of the vesting period.

DB Global Share Plan

From Year 2004, eligible employees have been granted a deferred share award, which entitles the holder to ten DB shares one year after grant. Expense is measured based on the fair value of the awards at grant date, and recognised over the vesting period of one year.

DB Equity Plan

From 2007, the DB Equity Plan is the principle delivery instrument for new share awards. An award, or portions of it, may be forfeited if the recipient voluntarily terminates employment before the end of the relevant vesting period. Early retirement provisions for the DB Equity Plan – Annual Award, however, allow continued vesting after voluntary termination of employment, when certain conditions regarding age or tenure are fulfilled. Vesting usually continues after termination of employment in cases such as redundancy or retirement. Vesting is accelerated if the recipient's termination of employment is due to death or disability.

During the year, RM4,025,765 (2009: RM1,315,677) of expense was recognised in the statements of comprehensive income.

34. Equity compensation benefits (continued)

DB Equity Plan **(continued)**

Movements in the number of deferred share rights held by employees are as follows:

Group and Bank

	2010 Number	2009 Number
Outstanding at 1 January	17,602	15,196
Granted during the year	40,352	8,025
Vested to employees during the year	(6,296)	(5,795)
Net transferred during the year	761	176
Forfeited/Lapsed during the year	(1,422)	-
Outstanding at 31 December	50,997	17,602

	2010 €'000	2009 €'000
Grant value of share awards outstanding at 31 December	2,241	944
Grant value of share awards issued to the Scheme in the year	1,855	150
Grant value of share awards vested to employees in the year	523	427

35. Change in accounting policies

(a) Change in accounting policies

FRS 139, *Financial Instruments: Recognition and Measurement* ("FRS 139")

The Group and the Bank have adopted BNM's revised Guidelines on Financial Reporting for Licensed Institutions issued on 1 January 2005 incorporating certain principles in connection with the recognition, derecognition and measurement of financial instruments, including derivative instruments that are in line with FRS 139 principles. The full adoption of FRS 139 on 1 January 2010 has resulted in the following changes in accounting policies:

(i) Impairment of loans and advances

The adoption of FRS 139 has resulted in a change in the accounting policy relating to the assessment for impairment of financial assets, particularly loans and advances. The existing accounting policies relating to the assessment of impairment of other financial assets of the Group and the Bank are already largely in line with those of FRS 139. Prior to the adoption of FRS 139, allowances for impaired loans and advances (previously referred to as non-performing loans) were computed in conformity with the BNM/GP3 Guidelines on Classification of Non-Performing Loans and Provision for Substandard, Bad and Doubtful Debts. Upon the adoption of FRS 139, the Group and the Bank assesses at the end of each reporting period whether there is any objective evidence that a loan or group of loans is impaired. The loan or group of loans is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the loan (an incurred 'loss event') and that the loss event has an impact on future estimated cash flows of the loan or group of loans that can be reliably estimated.

The Group and the Bank first assesses individually whether objective evidence of impairment exists individually for loans which are individually significant, and collectively for loans which are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed loan, the loan is included in a group of loans with similar credit risk characteristics and collectively assessed for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the loan's carrying amount and the present value of the estimated future cash flows. The carrying amount of the loan is reduced through the use of an allowance account and the amount of the loss is recognised in the statements of comprehensive income.

35. Change in accounting policies (continued)

(a) Change in accounting policies (continued)

(i) Impairment of loans and advances (continued)

As prescribed in BNM's guidelines on Classification and Impairment Provisions for Loans/Financing issued on 8 January 2010, banking institutions are required to maintain collective assessment impairment allowances of at least 1.5% of total outstanding loans/financing, net of individual assessment allowance. The collective assessment impairment allowance of the Bank as at the reporting date have been arrived based on this transitional arrangement issued by BNM.

The changes in accounting policy above have been accounted for prospectively, in line with the transitional arrangements under para 103AA of FRS 139, with adjustments to the carrying values of financial assets affecting the statement of comprehensive income as at the beginning of the current financial period being adjusted to opening retained profits. As a result of the adoption of the loans impairment basis under FRS 139 and the transitional arrangements under BNM's guidelines on Classification and Impairment Provisions for Loans/Financing, the Group and the Bank wrote back general allowance of RM23,946,000 and specific allowance of RM52,000 against opening retained profits as at 1 January 2010. At the same time, the Group and the Bank have also recognised opening collective assessment allowance of RM23,946,000 and opening individual assessment allowance of RM6,527,000 against opening retained profits as at 1 January 2010. Any further collective assessment allowance and individual assessment allowance charged subsequent to the initial adoption of FRS 139 is recognised as allowance for impairment on loans, advances and financing in the statement of comprehensive income.

(ii) Interest income recognition

Prior to the adoption of FRS 139, interest accrued and recognised as income prior to the date that a loan is classified as impaired is reversed out of income and set-off against the interest receivable account in the statement of financial position. Thereafter, interest on the impaired loan is recognised as income on a cash basis. Upon adoption of FRS 139, once a loan has been written down as a result of an impairment loss, interest income is thereafter recognised using the rate of interest used to discount the future cash flows for the purpose of measuring impairment loss. This change in accounting policy has resulted in the writeback of interest-in-suspense amounting to RM5,754,000 by the Group and the Bank to opening retained profits.

35. Change in accounting policies (continued)

(a) Change in accounting policies (continued)

(iii) Fair value option

Bank Negara Malaysia had in their Guidelines on Financial Reporting for Banking Institutions, issued on 5 February 2010, disallowed the application of fair value option on financial liabilities.

Accordingly, fair value option where previously applied in the measurement of financial liabilities are now reversed and re-measured based on amortised cost using the effective interest method.

This change in accounting policy has resulted in a credit adjustment to the Group and the Bank's retained profits by RM10,076,000.

(b) Adjustments due to change in accounting policies

(i) The changes in accounting policies as described above which resulted in adjustments to opening reserves of the Group and the Bank are as follows:

	Group and Bank RM'000
Effects on retained profits:	
At 1 January 2010, as previously stated	480,603
Effects of adoption of FRS 139	9,355
At 1 January 2010, as restated	489,958

(c) Comparative figures

(i) FRS 101 *Presentation of Financial Statements*

As a result of the adoption of the FRS 101 (revised), the Group and the Bank presents all non-owner changes in equity in the statements of comprehensive income.

Comparative information has been re-presented so that it is in conformity with the revised standard. Since the change only affects presentation aspects, there is no impact on earnings per share.

36. The operations of Islamic Banking

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2010

	Note	Bank 2010 RM'000	Bank 2009 RM'000
Assets			
Cash and short term funds	(a)	54,065	31,231
Other assets		439	4
Total assets		54,504	31,235
Liabilities and shareholders' funds			
Deposits from customer	(b)	8,123	5,889
Deposits and placements of banks and other financial institutions	(c)	19,893	-
Other liabilities	(d)	8	8
Taxation		371	85
Total liabilities		28,395	5,982
Capital funds		25,000	25,000
Retained profits		1,109	253
Islamic banking funds		26,109	25,253
Total liabilities and Islamic banking funds		54,504	31,235
Commitments and contingencies		-	-

The notes on pages 83 to 85 are an integral part of these financial statements.

36. The operations of Islamic Banking (continued)

STATEMENT OF COMPREHENSIVE INCOME FOR YEAR ENDED 31 DECEMBER 2010

	31 December 2010 RM'000	20 April to 31 December 2009 RM'000
Income derived from investment of Islamic banking funds	1,142	338
Profit before taxation	1,142	338
Taxation	(286)	(85)
Profit after taxation	856	253

STATEMENT OF CHANGES IN ISLAMIC BANKING FUNDS FOR THE YEAR ENDED 31 DECEMBER 2010

	Capital funds RM'000	Retained profits RM'000	Total RM'000
At 20 April 2009	25,000	-	25,000
Profit after taxation	-	253	253
At 31 December 2009	25,000	253	25,253
At 1 January 2010	25,000	253	25,253
Profit after taxation	-	856	856
At 31 December 2010	25,000	1,109	26,109

The Islamic Business received RM 25,000,000 capital funding from the conventional business on 20 April 2009

The notes on pages 83 to 85 are an integral part of these financial statements.

36. The operations of Islamic Banking (continued)

STATEMENT OF CASH FLOW
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010

	2010 RM'000	2009 RM'000
Cash flows from operating activities		
Profit before taxation	1,142	338
Operating profit before working capital changes	1,142	338
Decrease in operating assets	(435)	(4)
Decrease in operating liabilities	22,127	5,897
Net cash generated from operating activities	22,834	6,231
Cash flows from investing activity		
Net capital funds transferred from conventional business	-	25,000
Net cash generated from investing activity	-	25,000
Net increase in cash and cash equivalents	22,834	31,231
Cash and cash equivalents at beginning of period	31,231	-
Cash and cash equivalents at end of period (Note 36(a))	54,065	31,231

The notes on pages 83 to 85 are an integral part of these financial statements.

36. The operations of Islamic Banking (continued)

BNM had given its approval on 22 August 2007 for the Bank to conduct Islamic banking business under Section 124 of the Banking and Financial Institutions Act 1989.

Shariah Committee

The Shariah Committee was established under BNM's "Guidelines on the Governance of Shariah Committee for the Islamic Financial Institutions" (BNM/GPS1) to advise the Board of Directors on Shariah matters in its Islamic business operations and to provide technical assistance in ensuring the Islamic banking products and services offered by the Bank and the relevant documentation are in compliance with Shariah principles.

The committee comprises Dr Hussein Hamed Sayed Hassan and Dr Muhammad Qaseem.

Basis of measurement

The financial statements of the Islamic banking business have been prepared on the basis consistent with that of the Group and of the Bank as disclosed in Note 1 to the financial statements of the Group and of the Bank and have been prepared under the accrual basis of accounting.

(a) Cash and short-term funds

	Group and Bank	
	2010	**2009**
	RM'000	**RM'000**
Cash and balances with banks and other financial institutions	2,065	2,298
Money at call and deposit placements maturing within one month	52,000	28,933
	54,065	31,231

(b) Deposits from customer

	Group and Bank	
	2010	**2009**
	RM'000	**RM'000**
Non-Mudharabah		
Demand deposits	8,123	5,889

36. The operations of Islamic Banking (continued)

(c) Deposits and placements of banks and other financial institutions

	Group and Bank	
	2010	2009
	RM'000	RM'000
Licensed bank	19,893	-

(d) Other liabilities

	Group and Bank	
	2010	2009
	RM'000	RM'000
Bills payable	8	8

(e) Capital adequacy

The capital adequacy ratios of the Islamic banking business of the Group are computed in accordance with the Capital Adequacy Framework for Islamic Banks (CAFIB). The Group's Islamic banking business has adopted the Standardised Approach for Credit Risk and Market Risk, and the Basic Indicator Approach for Operational Risk.

Components of Tier I and Tier II Capital:

	Group and Bank	
	2010	2009
	RM'000	RM'000
Components of Tier I and Tier II capital are as follows:-		
Tier 1 capital		
Capital funds	25,000	25,000
Retained profits	1,109	253
Total Tier 1 capital	26,109	25,253
Total Tier 2 capital	-	-
Capital base	26,109	25,253
Core capital ratio	1354.20%	3995.73%
Risk-weighted capital ratio	1354.20%	3995.73%

36. The operations of Islamic Banking (continued)

(e) Capital adequacy (continued)

The breakdowns of risk-weighted assets ("RWA") by exposures in each major risk category as at 31 December 2010 are as follows:

RISK TYPE		Risk Weighted Assets	
		2010	**2009**
		RM'000	**RM'000**
1	Credit risk	540	-
2	Market risk	-	-
3	Operational risk	1,388	632
Total		**1,928**	**632**