# Deutsche Bank (Malaysia) Berhad

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

and its subsidiaries

# Financial statements for the year ended 31 December 2017

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

# Directors' report for the year ended 31 December 2017

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Bank for the financial year ended 31 December 2017.

## Principal activities

The principal activities of the Bank are banking and related financial services that also include Islamic Banking business. The principal activities of the subsidiary companies are set out in Note 10 to the financial statements. There have been no significant changes in these activities during the financial year.

## Results

| | Group and Bank RM'000 |
|---|---|
| Profit before tax | 274,089 |
| Tax expense | (63,724) |
| Profit for the year attributable to owner of the Bank | 210,365 |

## Dividends

Since the end of the previous financial year, the amount of dividends paid by the Bank was as follows:-

- In respect of the financial year ended 31 December 2016 as reported in the Director's Report of that year, a final ordinary dividend of 84.7 sen per ordinary share totalling RM147,039,000 declared and paid on 22 June 2017.

The final dividend recommended by the Directors in respect of the financial year ended 31 December 2017 is 89.3 sen per ordinary share totaling RM155,000,000.

## Reserves, provisions and allowances

There were no material transfers to or from reserves, provisions and allowances during the financial year under review other than those disclosed in the financial statements.

## Directors of the Bank

Directors who served during the financial year until the date of this report are:

Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin
Dato' Yusof Annuar bin Yaacob
Mr Steven Choy Khai Choon
Madam Koid Swee Lian
Mr Seamus Toal (appointed on 27 July 2017)

## Bad and doubtful debts and financing

Before the financial statements of the Group and of the Bank were made out, the Directors took reasonable steps to ascertain that actions had been taken in relation to the writing off of bad debts and financing and the making of allowance for impaired debts and financing, and satisfied themselves that all known bad debts and financing had been written off and adequate allowance had been made for impaired debts and financing.

At the date of this report, the Directors are not aware of any circumstances which would render the amount written off for bad debts and financing, or the amount of the allowance for impaired debts and financing, in the financial statements of the Group and of the Bank inadequate to any substantial extent.

## Current assets

Before the financial statements of the Group and of the Bank were made out, the Directors took reasonable steps to ascertain that any current assets, other than debts and financing, which were unlikely to be realised in the ordinary course of business at their values as shown in the accounting records of the Group and of the Bank, have been written down to an amount which they might be expected to realise.

At the date of this report, the Directors are not aware of any circumstances which would render the values attributed to the current assets in the financial statements of the Group and of the Bank misleading.

## Valuation methods

At the date of this report, the Directors are not aware of any circumstances which have arisen which render adherence to the existing methods of valuation of assets or liabilities in the financial statements of the Group and of the Bank misleading or inappropriate.

## Contingent and other liabilities

At the date of this report, there does not exist:

(a) any charge on the assets of the Group or of the Bank which has arisen since the end of the financial year and which secures the liabilities of any other person, or

(b) any contingent liability in respect of the Group or of the Bank that has arisen since the end of the financial year other than those incurred in the ordinary course of business.

No contingent or other liability of the Group and of the Bank has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Group and of the Bank to meet their obligations as and when they fall due.

## Change of circumstances

At the date of this report, the Directors are not aware of any circumstances, not otherwise dealt with in this report or the financial statements of the Group and of the Bank, which would render any amount stated in the financial statements misleading.

## Items of an unusual nature

The results of the operations of the Group and of the Bank for the financial year were not, in the opinion of the Directors, substantially affected by any item, transaction or event of a material and unusual nature.

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Group and of the Bank for the current financial year in which this report is made.

## Compliance with Bank Negara Malaysia's expectations on financial reporting

In the preparation of the financial statements, the Directors have taken reasonable steps to ensure that Bank Negara Malaysia's expectations on financial reporting have been complied with, including those set out in the Guidelines on Financial Reporting and the Guidelines on Classification and Impairment Provisions for Loans/Financing.

## Directors' interests in shares

According to the Register of Directors' Shareholdings maintained by the Bank in accordance with the Companies Act 2016, the Directors holding office at year end who have beneficial interests in the shares of the Bank and its related corporations are as follows:

| | Number of ordinary shares | | | |
|---|---|---|---|---|
| | **Balance at 1.1.2017** | **Bought** | **Sold** | **Balance at 31.12.2017** |
| Holding company | | | | |
| *Deutsche Bank Aktiengesellschaft* | | | | |
| Dato' Yusof Annuar bin Yaacob | 10,678 | 11,713 | (3,290) | 19,101 |

| | Number of ordinary shares | | | |
|---|---|---|---|---|
| | **Balance at 1.1.2017** | **Awarded/ Granted** | **Exercised/ Vested** | **Balance at 31.12.2017** |
| Holding company | | | | |
| *Deutsche Bank Aktiengesellschaft* | | | | |
| - DB Restricted Equity Units Plan | | | | |
| Dato' Yusof Annuar bin Yaacob | 16,106 | 15,450 | (11,713) | 19,843 |
| Seamus Toal | - | 53,876 | - | 53,876 |

None of the other Directors held or dealt in the shares of the Bank or its related corporations during the financial year.

## Directors' benefits

Since the end of the previous financial year, no Director of the Bank has received nor become entitled to receive any benefit (other than a benefit included in the aggregate amount of remuneration received or due and receivable by Directors as shown in Note 24 to the financial statements) by reason of a contract made by the Bank or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangements to which the Bank is a party whereby Directors might acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate other than the share and options compensation plans operated by Deutsche Bank Aktiengesellschaft as disclosed in Note 34.

## Issue of shares and debentures

There were no changes in the issued and paid-up capital of the Bank during the financial year.

There were no debentures issued during the year.

## Options granted over unissued shares

No options were granted to any person to take up unissued shares of the Bank during the year.

## Indemnity and insurance costs

During the financial year, the total amount of insurance cost incurred for the Directors of the Bank net of Directors' contribution is RM241,983.

## Ultimate holding company

The Directors regard Deutsche Bank Aktiengesellschaft, a bank incorporated in Germany, as the immediate and ultimate holding company of the Bank during the financial year and until the date of this report.

## Subsidiaries

The details of the Company's subsidiaries are disclosed in Note 10 to the financial statements.

Company No. 312552-W

## Auditors

The auditors, Messrs KPMG PLT, have indicated their willingness to accept re-appointment.

The auditors' remuneration is disclosed in Note 21 to the financial statements.

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

..............................................................................................

**Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin**
Director

..............................................................................................

**Dato' Yusof Annuar bin Yaacob**
Director

Kuala Lumpur

Date: 28 MAY 2018

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

## Statement by Directors pursuant to Section 251(2) of the Companies Act 2016

In the opinion of the Directors, the financial statements set out on pages 15 to 95 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Bank as of 31 December 2017 and of their financial performance and cash flows for the financial year then ended.

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

..........................................................................
**Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin**
Director

..........................................................................
**Dato' Yusof Annuar bin Yaacob**
Director

Kuala Lumpur

Date: 28 MAY 2018

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

## Statutory declaration pursuant to Section 251(1)(b) of the Companies Act 2016

I, **Chan Tse Ning**, 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 15 to 95 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the declaration to be true, and by virtue of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the above named Chan Tse Ning, NRIC: 800626-10-5492, MIA CA 29139, at Kuala Lumpur in the Federal Territory on 28 MAY 2018

.........................................
**Chan Tse Ning**

Before me:

PESURUHJAYA SUMPAH
No: W 681
RAJEEV SAIGAL A/L RAMLABAYA SAIGAL
BC/R/548
1 JAN 2017-31 DIS 2018
MALAYSIA

NO. A-31-11, LEVEL 31,
TOWER A, MENARA UOA BANGSAR,
NO. 5, JALAN BANGSAR UTAMA 1,
BANGSAR, 59000 KUALA LUMPUR.

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

## Shariah Committee's Report

*In the name of Allah, the Beneficent, the Merciful*

In compliance with the letter of appointment, we are required to submit the following report:

We have reviewed the principles and the contracts relating to the transactions and applications introduced by Deutsche Bank (Malaysia) Berhad's Islamic Banking division during the year ended 31 December 2017. We have also conducted our review to form an opinion as to whether Deutsche Bank (Malaysia) Berhad's Islamic Banking division has complied with the Shariah principles and with the Shariah rulings issued by the Shariah Advisory Council of Bank Negara Malaysia, as well as Shariah decisions made by us.

The management of Deutsche Bank (Malaysia) Berhad's Islamic Banking division is responsible for ensuring that the financial institution conducts its business in accordance with the Shariah principles. It is our responsibility to form an independent opinion, based on our review of the operations of Deutsche Bank (Malaysia) Berhad's Islamic Banking division, and to report to you.

We have assessed the Shariah review work carried out by Shariah Compliance officer and internal Shariah audit.

We planned and performed our review so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Bank has not violated the Shariah principles.

In our opinion:

The contracts, transactions and dealings entered into by Deutsche Bank (Malaysia) Berhad's Islamic Banking division during the year ended 31 December 2017 that we have reviewed are in compliance with the Shariah principles.

Company No. 312552-W

We, the members of the Shariah Committee of Deutsche Bank (Malaysia) Berhad's Islamic Banking division, do hereby confirm that the operations of Deutsche Bank (Malaysia) Berhad's Islamic Banking division for the year ended 31 December 2017 have been conducted in conformity with the Shariah principles.

**Dr. Sheikh Hussein Hamed Sayed Hassan**
**(Chairman of Shariah Committee)**

**Dr Muhammad Qaseem**
**(Member)**

**Encik Mohd Hilmi bin Ramli**
**(Member)**

# INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF DEUTSCHE BANK (MALAYSIA) BERHAD

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

## Report on the Audit of the Financial Statements

### Opinion

We have audited the financial statements of Deutsche Bank (Malaysia) Berhad, which comprise the statements of financial position as at 31 December 2017 of the Group and of the Bank, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Bank for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 15 to 95.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2017, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

### Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our auditor's report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence and Other Ethical Responsibilities

We are independent of the Group and of the Bank in accordance with the *By-Laws (on Professional Ethics, Conduct and Practice)* of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

**Information Other than the Financial Statements and Auditors' Report Thereon**

The Directors of the Bank are responsible for the other information. The other information comprises the Directors' Report and Shariah Committee's Report, but does not include the financial statements of the Group and of the Bank and our auditors' report thereon.

Our opinion on the financial statements of the Group and of the Bank does not cover the Directors' Report and Shariah Committee's Report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Bank, our responsibility is to read the Directors' Report and Shariah Committee's Report and, in doing so, consider whether the Directors' Report and Shariah Committee's Report are materially inconsistent with the financial statements of the Group and of the Bank or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this Directors' Report and Shariah Committee's Report, we are required to report that fact. We have nothing to report in this regard.

**Responsibilities of the Directors and those charged with governance for the Financial Statements**

The Directors of the Bank are responsible for the preparation and presentation of the financial statements of the Group and of the Bank that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Group and of the Bank that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the ability of the Group and of the Bank to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Bank or to cease operations, or have no realistic alternative but to do so.

**Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Bank as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risk of material misstatement of the financial statements of the Group and of the Bank, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 internal control of the Group and of the Bank.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Group and of the Bank to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Bank or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group and the Bank to cease to continue as a going concern.

**Auditors' Responsibilities for the Audit of the Financial Statements (continued)**

- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Bank, including the disclosures, and whether the financial statements of the Group and of the Bank represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

## Other matters

This report is made solely to the member of the Bank, as a body, in accordance with Section 266 of the Companies Act 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

KPMG

**KPMG PLT**
(LLP0010081-LCA & AF 0758)
Chartered Accountants

**Foo Siak Chung**
Approval Number: 03184/02/2020 J
Chartered Accountant

Petaling Jaya,

Date: 28 MAY 2018

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

## Statements of financial position as at 31 December 2017

| | | Group | | Bank | |
|---|---|---|---|---|---|
| | Note | 2017 RM'000 | 2016 RM'000 | 2017 RM'000 | 2016 RM'000 |
| **Assets** | | | | | |
| Cash and short-term funds | 3 | 3,416,228 | 4,608,452 | 3,416,228 | 4,608,452 |
| Deposits and placements with banks and other financial institutions | 4 | 333,033 | 1,126 | 333,033 | 1,126 |
| Reverse repurchase agreements | | 69,042 | 608,641 | 69,042 | 608,641 |
| Financial assets held-for-trading | 5 | 1,445,802 | 635,245 | 1,445,802 | 635,245 |
| Financial investments available-for-sale | 6 | 1,591 | 1,591 | 1,591 | 1,591 |
| Loans, advances and financing | 7 | 2,391,753 | 1,890,528 | 2,391,753 | 1,890,528 |
| Other assets | 8 | 1,752,189 | 3,849,865 | 1,752,189 | 3,849,865 |
| Tax recoverable | | 10,149 | 2,970 | 10,149 | 2,970 |
| Statutory deposit with Bank Negara Malaysia | 9 | 100,000 | 250,000 | 100,000 | 250,000 |
| Investments in subsidiary companies | 10 | - | - | 20 | 20 |
| Plant and equipment | 11 | 4,090 | 4,191 | 4,090 | 4,191 |
| Deferred tax assets | 12 | 27,299 | 35,761 | 27,299 | 35,761 |
| **Total assets** | | 9,551,176 | 11,888,370 | 9,551,196 | 11,888,390 |
| **Liabilities and equity** | | | | | |
| Deposits from customers | 13 | 4,627,017 | 4,285,140 | 4,627,037 | 4,285,160 |
| Deposits and placements of banks and other financial institutions | 14 | 658,943 | 1,441,194 | 658,943 | 1,441,194 |
| Other liabilities | 15 | 2,446,461 | 4,406,607 | 2,446,461 | 4,406,607 |
| **Total liabilities** | | 7,732,421 | 10,132,941 | 7,732,441 | 10,132,961 |

Company No. 312552-W

# Statements of financial position as at 31 December 2017 (continued)

| | Note | Group 2017 RM'000 | Group 2016 RM'000 | Bank 2017 RM'000 | Bank 2016 RM'000 |
|---|---|---|---|---|---|
| **Equity** | | | | | |
| Share capital | 16 | 531,362 | 173,599 | 531,362 | 173,599 |
| Reserves | 17 | 1,287,393 | 1,581,830 | 1,287,393 | 1,581,830 |
| Total equity attributable to owner of the Bank | | 1,818,755 | 1,755,429 | 1,818,755 | 1,755,429 |
| **Total liabilities and equity** | | 9,551,176 | 11,888,370 | 9,551,196 | 11,888,390 |

| | Note | Group and Bank 2017 RM'000 | Group and Bank 2016 RM'000 |
|---|---|---|---|
| **Commitments and contingencies** | 30 | 108,969,319 | 112,693,840 |

The notes on pages 21 to 95 are an integral part of these financial statements.

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

## Statements of profit or loss and other comprehensive income for the year ended 31 December 2017

| | | Group and Bank | |
| --- | --- | --- | --- |
| | **Note** | **2017 RM'000** | **2016 RM'000** |
| Interest income | 18 | 256,877 | 204,351 |
| Interest expense | 19 | (78,717) | (71,784) |
| Net interest income | | 178,160 | 132,567 |
| Net income from Islamic Banking Operations | 35 | 2,854 | 619 |
| Non-interest income | 20 | 265,418 | 234,011 |
| Operating income | | 446,432 | 367,197 |
| Other operating expenses | 21 | (172,027) | (166,200) |
| Operating profit | | 274,405 | 200,997 |
| Allowance made for impairment on loans, advances and financing | 22 | (316) | (5,725) |
| **Profit before tax** | | 274,089 | 195,272 |
| Tax expense | 25 | (63,724) | (48,233) |
| **Net profit and total comprehensive income for the year** | | 210,365 | 147,039 |
| Earnings per share (sen) | 26 | 121.2 | 84.7 |

The notes on pages 21 to 95 are an integral part of these financial statements.

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

## Statements of changes in equity for the year ended 31 December 2017

| | | ← Attributable to owner of the Bank → | | | | | |
|---|---|---|---|---|---|---|---|
| | | | ← Non-distributable → | | Distributable | | |
| **Group and Bank** | **Note** | **Share capital RM'000** | **Share premium RM'000** | **Other reserves RM'000** | **Retained earnings RM'000** | **Total reserves RM'000** | **Total RM'000** |
| At 1 January 2016 | | 173,599 | 357,763 | 188,280 | 988,748 | 1,534,791 | 1,708,390 |
| Net profit and total comprehensive income for the year | | - | - | - | 147,039 | 147,039 | 147,039 |
| Dividend paid | 27 | - | - | - | (100,000) | (100,000) | (100,000) |
| At 31 December 2016/1 January 2017 | | 173,599 | 357,763 | 188,280 | 1,035,787 | 1,581,830 | 1,755,429 |
| Net profit and total comprehensive income for the year | | - | - | - | 210,365 | 210,365 | 210,365 |
| Dividend paid | 27 | - | - | - | (147,039) | (147,039) | (147,039) |
| Transfer of share premium to share capital | 16 | 357,763 | (357,763) | - | - | (357,763) | - |
| Transfer of reserve fund to retained earnings | 17 | - | - | (174,722) | 174,722 | - | - |
| At 31 December 2017 | | 531,362 | - | 13,558 | 1,273,835 | 1,287,393 | 1,818,755 |
| | | Note 16 | Note 17 | Note 17 | Note 17 | | |

The notes on pages 21 to 95 are an integral part of these financial statements.

# Deutsche Bank (Malaysia) Berhad

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

## and its subsidiaries

## Statements of cash flows for the year ended 31 December 2017

| | Group and Bank | |
|---|---|---|
| | **2017** | **2016** |
| | **RM'000** | **RM'000** |
| **Cash flows from operating activities** | | |
| Profit before tax | 274,089 | 195,272 |
| *Adjustments for:* | | |
| Depreciation of plant and equipment | 936 | 943 |
| Allowance made for impairment on loans, advances and financing | 316 | 5,725 |
| Net gain on disposal of plant and equipment | (84) | - |
| Net unrealised loss on revaluation of trading portfolio (including derivatives) | 235,972 | 496,209 |
| **Operating gain before changes in operating assets and liabilities** | 511,229 | 698,149 |
| *(Increase)/Decrease in operating assets:* | | |
| Deposits and placements with banks and other financial institutions | (331,907) | (1,126) |
| Reverse repurchase agreements | 539,599 | (78,501) |
| Financial assets held-for-trading | (810,557) | 197,269 |
| Loans, advances and financing | (501,541) | (563,787) |
| Other assets | (338,821) | (1,746,644) |
| Statutory deposit with Bank Negara Malaysia | 150,000 | (230,000) |
| *Increase/(Decrease) in operating liabilities:* | | |
| Deposits from customers | 341,877 | (532,418) |
| Deposits and placements of banks and other financial institutions | (782,251) | (415,457) |
| Other liabilities | 240,380 | 1,581,710 |
| **Cash used in operations** | (981,992) | (1,090,805) |
| Net income taxes paid | (62,442) | (55,888) |
| **Net cash used in operating activities** | (1,044,434) | (1,146,693) |

Company No. 312552-W

# Statements of cash flows for the year ended 31 December 2017 (continued)

| | Group and Bank | |
|---|---|---|
| | **2017** | **2016** |
| | **RM'000** | **RM'000** |
| **Cash flows from investing activities** | | |
| Purchase of plant and equipment | (850) | (1,087) |
| Proceeds from disposal of plant and equipment | 99 | - |
| **Net cash used in investing activities** | (751) | (1,087) |
| **Cash flows from financing activity** | | |
| Dividends paid | (147,039) | (100,000) |
| **Net cash used in financing activity** | (147,039) | (100,000) |
| **Net decrease in cash and cash equivalents** | (1,192,224) | (1,247,780) |
| Cash and cash equivalents at 1 January | 4,608,452 | 5,856,232 |
| **Cash and cash equivalents at 31 December (Note 3)** | 3,416,228 | 4,608,452 |

The notes on pages 21 to 95 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

Deutsche Bank (Malaysia) Berhad ("the Bank") is a public limited liability company incorporated and domiciled in Malaysia. The address of both its registered office and principal place of business 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 2017 comprise the Bank and its subsidiaries (together referred to as the "Group" and individually referred to as "Group entities").

The Bank is principally engaged in banking and related financial services that also include Islamic Banking business, whilst the principal activities of the subsidiaries are stated at Note 10 to the financial statements.

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 ________________.

## 1. Basis of preparation

### (a) Statement of compliance

The financial statements of the Group and of the Bank have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Pursuant to paragraph 13 of the Guidelines on Classification and Impairment Provision for Loans/Financing, Bank Negara Malaysia ("BNM") via its letter dated 4 February 2014 requires all banking institutions to maintain in aggregate, collective impairment provision and regulatory reserve of no less than 1.2% over the total outstanding loans/financing, net of individual impairment provision. The Bank has complied with the minimum requirement of the BNM's directive as at 31 December 2017.

# 1. Basis of preparation (continued)

## (a) Statement of compliance (continued)

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

***MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2018***

- MFRS 9, *Financial Instruments (2014)*
- MFRS 15, *Revenue from Contracts with Customers*
- Clarifications to MFRS 15, *Revenue from Contracts with Customers*
- IC Interpretation 22, *Foreign Currency Transactions and Advance Consideration*
- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2014-2016 Cycle)*
- Amendments to MFRS 2, *Share-based Payment – Classification and Measurement of Share-based Payment Transactions*
- Amendments to MFRS 4, *Insurance Contracts – Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts*
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures (Annual Improvements to MFRS Standards 2014-2016 Cycle)*
- Amendments to MFRS 140, *Investment Property – Transfers of Investment Property*

***MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2019***

- MFRS 16, *Leases*
- IC Interpretation 23, *Uncertainty over Income Tax Treatments*
- Amendments to MFRS 3, *Business Combinations (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 9, *Financial Instruments – Prepayment Features with Negative Compensation*
- Amendments to MFRS 11, *Joint Arrangements (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 112, *Income Taxes (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 119, *Employee Benefits (Plan Amendment, Curtailment or Settlement)*
- Amendments to MFRS 123*, Borrowing Costs (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 128, *Long-term Interests in Associates and Joint Ventures*

# 1. Basis of preparation (continued)

## (a) Statement of compliance (continued)

***MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2020***

- Amendments to MFRS 2, *Share-Based Payment*
- Amendments to MFRS 3, *Business Combinations*
- Amendments to MFRS 6, *Exploration for and Evaluation of Mineral Resources*
- Amendments to MFRS 14, *Regulatory Deferral Accounts*
- Amendments to MFRS 101, *Presentation of Financial Statements*
- Amendments to MFRS 108, *Accounting Policies, Changes in Accounting Estimates and Errors*
- Amendments to MFRS 134, *Interim Financial Reporting*
- Amendments to MFRS 137, *Provisions, Contingent Liabilities and Contingent Assets*
- Amendment to 138, *Intangible Assets*
- Amendment to IC Interpretation 12, *Service Concession Arrangements*
- Amendment to IC Interpretation 19, *Extinguishing Financial Liabilities with Equity Instruments*
- Amendment to IC Interpretation 20, *Stripping Costs in the Production Phase of a Surface Mine*
- Amendment to IC Interpretation 22, *Foreign Currency Transactions and Advance Consideration*
- Amendment to IC Interpretation 132, *Intangible Assets – Web Site Costs*

***MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2021***

- MFRS 17, *Insurance Contracts*

***MFRSs, Interpretations and amendments effective for a date yet to be confirmed***

- Amendments to MFRS 10, *Consolidated Financial Statements* and MFRS 128, *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

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

- from the annual period beginning on 1 January 2018 for those accounting standards, amendments and interpretation that are effective for annual periods beginning on or after 1 January 2018;

- from the annual period beginning on 1 January 2019 for the accounting standard, amendments and interpretation that are effective for annual periods beginning on or after 1 January 2019;

- from the annual period beginning on 1 January 2020 for the accounting standard, amendments and interpretation that are effective for annual periods beginning on or after 1 January 2020; and

# 1. Basis of preparation (continued)

## (a) Statement of compliance (continued)

- from the annual period beginning on 1 January 2021 for the accounting standard that is effective for annual periods beginning on or after 1 January 2021.

The initial application of the accounting standards, amendments or interpretations are not expected to have any material financial impact to the current period and prior period financial statements of the Group and the Bank except as follows:

### (i) MFRS 9, *Financial Instruments*

MFRS 9 replaces the guidance in MFRS 139, *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets and financial liabilities, and on hedge accounting.

The standard introduces new requirements for classification and measurement of financial instruments, impairment of financial assets and hedge accounting. The approach for classification of financial assets is driven by cash flow characteristics and the business model in which asset are held with three measurement classification, namely amortised cost, fair value through profit or loss ("FVTPL") and fair value through other comprehensive income ("FVOCI").

For impairment, MFRS 9 introduces an expected-loss impairment model which will require more timely recognition of expected credit losses to reflect changes of credit risk of financial instruments as well as future economic conditions.

The Group and the Bank anticipate changes to the financial statements in the areas of classification and measurement for financial assets and liabilities and they are as follows:

- Loans, advances and financing are expected to continue to be measured at amortised cost;
- Financial assets and liabilities that are held-for-trading are expected to continue to be measured at FVTPL;
- Financial assets that are not held-for-trading are expected to be classified as investment securities measured at FVOCI; and
- Investment in equity instruments that are currently classified as available-for-sale ("AFS") which do not have a quoted market price in active market and whose fair value cannot be reliably measured are expected to be classified and measured at FVOCI.

The expected changes on the above classification of financial assets and liabilities are not expected to have a material impact on the value of the assets and liabilities of the Group and the Bank.

# 1. Basis of preparation (continued)

## (a) Statement of compliance (continued)

### (i) MFRS 9, *Financial Instruments (continued)*

Separately, under the new expected loss impairment model, the Group and the Bank expect that the allowance made for impairment on loans, advances and financing to reduce by RM11.5 million as compared to the balance as at 31 December 2017.

### (ii) MFRS 16, *Leases*

MFRS 16 replaces the guidance in MFRS 117, *Leases*, IC Interpretation 4, *Determining whether an Arrangement contains a Lease*, IC Interpretation 115, *Operating Leases – Incentives* and IC Interpretation 127, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The Group and the Bank are currently assessing the financial impact that may arise from the adoption of MFRS 16.

## (b) Significant changes in regulatory requirements

**Companies Act 2016**

The new Companies Act 2016 ("New Act") has been implemented effective from 31 January 2017. With the implementation of the New Act, the Companies Act 1965 is now repealed.

The financial statements of the Group and the Bank is prepared in accordance with the requirements of the New Act. Amongst the key changes introduced in the New Act are:

(a) the removal of the authorised share capital;
(b) the ordinary shares will cease to have par or nominal values; and
(c) the share premium will become part of the share capital.

During the financial year ended 31 December 2017, the Group and the Bank has transferred RM357,763,000 from share premium to its share capital pursuant to the transition provisions set out in Section 618(2) of the New Act.

There is no impact on the number of ordinary shares in issue or the relative entitlement of any of the members as a result of this transfer of the amount in the share premium account to the share capital account.

**Revised Policy Document on Capital Funds issued by Bank Negara Malaysia ("BNM")**

On 3 May 2017, BNM issued a Revised Policy Document on Capital Funds ("Revised Policy Document"). This Revised Policy Document applies to banking institution in Malaysia that covers licensed banks and licensed investment banks.

# 1. Basis of preparation (continued)

## (b) Significant changes in regulatory requirements (continued)

**Revised Policy Document on Capital Funds issued by Bank Negara Malaysia ("BNM") (continued)**

The issuance of this Revised Policy Document has superseded a guideline issued by BNM previously, namely Capital Funds dated 1 July 2013.

The key changes in the Revised Policy Document are:

(a) the removal of the requirement on maintenance of a reserve fund; and
(b) the revised component of capital funds shall exclude share premium and reserve fund.

During the financial year ended 31 December 2017, the Group and the Bank has transferred RM174,722,000 from reserve fund to its retained profits pursuant to the Revised Policy Document.

## (c) 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.

## (d) Functional and presentation currency

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

## (e) Use of estimates and judgements

The preparation of the financial statements requires management 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 period in which the estimates are revised and in any future periods affected.

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 instruments as disclosed in Note 2(c)(vi).

# 2. Significant accounting policies

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

## (a) Basis of consolidation

### (i) Subsidiaries

Subsidiaries are entities, including structured entities, controlled by the Bank. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The Bank controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Potential voting rights are considered when assessing control only when such rights are substantive. The Bank also considers it has *de facto* power over an investee when, despite not having the majority of voting rights, it has the current ability to direct the activities of the investee that significantly affect the investee's return.

Investments in subsidiaries are measured in the Bank's statement of financial position at cost less any impairment losses, unless the investment is classified as held for sale or distribution. The cost of investment includes transaction costs.

### (ii) Loss of control

Upon the loss of control of a subsidiary, the Bank derecognises the assets and liabilities of the former subsidiary, any non-controlling interests and the other components of equity related to the former subsidiary from the consolidated statement of financial position. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Bank retains any interest in the former subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

### (iii) 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 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)(ii)(b).

## 2. Significant accounting policies (continued)

### (c) Financial instruments

#### (i) Initial recognition and measurement

A financial asset or a financial liability is recognised in the statements of financial position 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.

#### (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.

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) Loans and receivables***

Loans and receivables category comprises debt instruments that are not quoted in an active market.

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)

***Financial assets (continued)***

***(c) Financial investments available-for-sale***

Available-for-sale financial assets are non-derivative financial assets, comprising investment in equity and debt securities instruments that are not categorised into any of the other categories above. Financial assets available-for-sale are usually held for an indefinite period of time, which may be sold in response to liquidity requirement or changes in market conditions.

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 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)(i)).

***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, including derivatives or financial liabilities 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.

# 2. Significant accounting policies (continued)

## (c) Financial instruments (continued)

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

***Financial liabilities (continued)***

Financial liabilities 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.

### (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.

Fair value arising from 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 the obligation, the carrying value is adjusted to the obligation amount and accounted for as a provision.

### (iv) Regular way purchase or sale of financial assets

A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

A regular way purchase or sale of financial assets is recognised and derecognised, as applicable, using trade date accounting. Trade date accounting refers to:

(a) the recognition of an asset to be received and the liability to pay for it on the trade date, and

(b) derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date.

## 2. Significant accounting policies (continued)

### (c) Financial instruments (continued)

#### (v) 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.

#### (vi) Determination of fair value

Fair value of an asset or a liability, except for share-based payment and lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

For non-financial asset, the fair value measurement takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair value are categorised into different levels in a fair value hierarchy based on the input used in the valuation technique as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

## 2. Significant accounting policies (continued)

### (c) Financial instruments (continued)

#### (vi) Determination of fair value (continued)

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3: unobservable inputs for the asset or liability.

The Group recognises transfers between levels of the fair value hierarchy as of the date of the event or change in circumstances that caused the transfers.

For financial instruments measured at fair value, where available, quoted and observable market prices in an active market or dealer price quotations are used to measure fair value. These include listed equity securities and broker quotes on Bloomberg and Reuters.

Where such quoted and observable market prices are not available, fair values are determined using appropriate valuation techniques, which include the use of mathematical models, such as discounted cash flow models and option pricing models, comparison to similar instruments for which market observable prices exist and other valuation techniques. Valuation techniques used incorporate assumptions regarding discount rates, interest/profit rate yield curves, estimates of future cash flows and other factors, as applicable. The Group and the Bank generally use widely recognised valuation techniques with market observable inputs, if available, for the determination of fair value.

If prices and parameter inputs or assumptions are not observable, the appropriateness of fair value is subject to additional procedures to assess its reasonableness. Such procedures include performing revaluations using independently generated models, assessing the valuations against appropriate proxy instruments, performing sensitivity analysis and extrapolation techniques, and considering other benchmarks. Assessment is made as to whether the valuation techniques yield fair value estimates that are reflective of the way the market operates by calibrating the results of the valuation models. These procedures require the application of management judgement.

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

## 2. Significant accounting policies (continued)

### (c) Financial instruments (continued)

#### (vii) Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the statements 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 statements of financial position.

### (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. If any such objective evidence exists, then the impairment loss of the financial assets is estimated.

In respect of loans, advances and financing, the Group and the Bank first assess whether objective evidence of impairment exists individually for loans which are individually significant, or collectively for loans which are not individually significant. An individually assessed loan 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 loans (an incurred “loss event”) and that loss event (or events) has an impact on the present value of estimated future cash flows of the loans that can be reliably estimated.

Objective evidence of impairment may include indications that a borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, that it is possible that they will enter bankruptcy or other financial reorganisation and that there are observable data indicating a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with default.

# 2. Significant accounting policies (continued)

## (d) Impairment (continued)

### (i) Financial assets (continued)

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 discounted at the loan's original effective interest rate. The carrying amount of the loan is reduced through the use of an allowance account and the amount of loss is recognised in the profit or loss. 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.

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.

Under the Guidelines on Classification and Impairment Provision for Loans/Financing issued by BNM where loans, advances and financing that is past due for more than 90 days/3 months shall be classified as impaired. The Bank applies this policy in addition to the above when determining if a loan is impaired.

An impairment loss in respect of financial investments available-for-sale 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 a financial investment available-for-sale 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.

# 2. Significant accounting policies (continued)

## (d) Impairment (continued)

### (i) Financial assets (continued)

Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available-for-sale 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.

### (ii) Other assets

The carrying amounts of other 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 or cash-generating unit.

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 to reduce the carrying amounts of the other assets in the cash-generating unit (groups of cash-generating units) on a *pro rata* basis.

## 2. Significant accounting policies (continued)

### (d) Impairment (continued)

#### (ii) Other assets (continued)

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 asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

### (e) Repurchase agreements

Reverse repurchase agreements are securities which the Bank commits to resell at future dates and are reflected as an asset.

Repurchase agreements are obligations which the Bank commits to repurchase at future dates and are reflected as a liability.

### (f) Plant and equipment

#### (i) Recognition and measurement

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

Cost includes expenditures that are directly attributable to the acquisition of the asset 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.

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.

## 2. Significant accounting policies (continued)

### (f) Plant and equipment (continued)

#### (i) Recognition and measurement (continued)

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.

#### (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 on 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 component of an item of 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:

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

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

## 2. Significant accounting policies (continued)

### (g) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are 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 or receivable on the taxable income or loss 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 financial years.

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the statements of financial position and their tax bases. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the 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 statements of profit or loss and other 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 estimate 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.

## 2. Significant accounting policies (continued)

### (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 are recognised as income based on time apportionment over the contractual period.

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

### (j) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Group and the Bank at exchange rates at the dates of the transactions.

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 profit or loss.

### (k) Employee benefits

#### (i) Short-term employee 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 and the Bank. Short-term accumulating compensated absences such as paid annual leaves are recognised when services are rendered by employees that increase 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 statements of profit or loss and other comprehensive income as incurred.

## 2. Significant accounting policies (continued)

### (k) Employee benefits (continued)

#### (iii) Share-based compensation

The Group and the Bank participate in equity-settled and cash-settled share based compensation plan for the employees that is offered by the ultimate holding company, Deutsche Bank Aktiengesellschaft, a bank incorporated in Germany. The fair value of the services received in exchange for the grant of the options is recognised as an expense in the profit of loss over the vesting periods of the grant.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each reporting date, the Group and the Bank revise its estimates of the number of options that are expected to vest. The Group and the Bank recognise the impact of the revision of original estimates, if any, in the profit or loss.

### (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 statements of financial position.

Payments made under operating leases are recognised in the statements of profit or loss and other comprehensive income on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit or loss 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 or the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. 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 2017 RM'000 | Group and Bank 2016 RM'000 |
|---|---|---|
| Cash and balances with banks and other financial institutions | 279,993 | 294,572 |
| Money at call and deposit placements maturing within one month | 3,136,235 | 4,313,880 |
| | 3,416,228 | 4,608,452 |

## 4. Deposits and placements with banks and other financial institutions

| | Group and Bank 2017 RM'000 | Group and Bank 2016 RM'000 |
|---|---|---|
| Licensed bank | 330,000 | - |
| Other financial institutions | 3,033 | 1,126 |
| | 333,033 | 1,126 |

## 5. Financial assets held-for-trading

| | Group and Bank 2017 RM'000 | Group and Bank 2016 RM'000 |
|---|---|---|
| **At fair value** | | |
| Malaysian Government Securities | 825,718 | 490,502 |
| Malaysian Investment Issue | 620,084 | 142,658 |
| Cagamas bonds | - | 2,085 |
| | 1,445,802 | 635,245 |

## 6. Financial investments available-for-sale

| | Group and Bank 2017 RM'000 | Group and Bank 2016 RM'000 |
|---|---|---|
| **At cost** | | |
| Unquoted shares in Malaysia | 1,591 | 1,591 |

Company No. 312552-W

# 7. Loans, advances and financing

| | Group and Bank | |
|---|---|---|
| | 2017 | 2016 |
| | RM'000 | RM'000 |
| **At amortised cost** | | |
| Overdrafts | 112,348 | 130,457 |
| Term loans - housing loans | 12,494 | 15,059 |
| - other term loans | 203,638 | 228,226 |
| Bills receivable | 606,806 | 677,220 |
| Trust receipts | 22,124 | - |
| Claims on customers under acceptance credits | 1,473,889 | 871,013 |
| Staff loans | 2,768 | 3,356 |
| | 2,434,067 | 1,925,331 |
| Unearned interest | (25,128) | (17,803) |
| Gross loans, advances and financing | 2,408,939 | 1,907,528 |
| Allowance for impaired loans and financing | | |
| - Collective assessment allowance | (17,123) | (16,822) |
| - Individual assessment allowance | (63) | (178) |
| Net loans, advances and financing | 2,391,753 | 1,890,528 |

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

| | Group and Bank | |
|---|---|---|
| | 2017 | 2016 |
| | RM'000 | RM'000 |
| Maturing within one year | 2,378,919 | 1,870,033 |
| One year to three years | 15,588 | 23,161 |
| Three years to five years | 1,734 | 1,527 |
| Over five years | 12,698 | 12,807 |
| | 2,408,939 | 1,907,528 |

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

| | Group and Bank | |
|---|---|---|
| | 2017 | 2016 |
| | RM'000 | RM'000 |
| Domestic banking institutions | 2,005 | 2,546 |
| Domestic non-bank financial institutions | 347,431 | 229,504 |
| Domestic business enterprises | 1,365,625 | 874,918 |
| Individuals | 15,263 | 18,415 |
| Government and statutory bodies | 74,066 | 109,782 |
| Foreign entities | 604,549 | 672,363 |
| | 2,408,939 | 1,907,528 |

# 7. Loans, advances and financing (continued)

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

| | Group and Bank | |
|---|---|---|
| | 2017 | 2016 |
| | RM'000 | RM'000 |
| Fixed rate | | |
| - Other fixed rate loans/financing | 2,768 | 3,231 |
| Variable rate | | |
| - Base lending rate plus | 49,705 | 42,347 |
| - Cost plus | 2,354,811 | 1,859,986 |
| - Other variable rates | 1,655 | 1,964 |
| | 2,408,939 | 1,907,528 |

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

| | Group and Bank | |
|---|---|---|
| | 2017 | 2016 |
| | RM'000 | RM'000 |
| Mining and Quarrying | - | 2,748 |
| Manufacturing | 300,444 | 339,073 |
| Construction | 85,747 | 72,004 |
| Wholesale & retail trade and restaurants & hotels | 124,446 | 205,397 |
| Transport, storage and communication | 811,154 | 242,332 |
| Finance, insurance and business services | 997,819 | 917,777 |
| Education, health and others | 74,066 | 109,782 |
| Household | 15,263 | 18,415 |
| | 2,408,939 | 1,907,528 |

7.5 Gross loans, advances and financing analysed by geographical distribution are as follows:

| | Group and Bank | |
|---|---|---|
| | 2017 | 2016 |
| | RM'000 | RM'000 |
| Malaysia | 1,804,389 | 1,235,165 |
| China | 5,894 | 102,124 |
| Singapore | - | 175,237 |
| India | 351,800 | 326,747 |
| Turkey | 226,522 | 30,746 |
| Others | 20,334 | 37,509 |
| | 2,408,939 | 1,907,528 |

# 7. Loans, advances and financing (continued)

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

| | Group and Bank 2017 RM'000 | Group and Bank 2016 RM'000 |
|---|---|---|
| At 1 January | 2,634 | 2,982 |
| Classified as impaired during the year | 504 | 638 |
| Reclassified as non-impaired during the year | (650) | (540) |
| Amounts recovered | (326) | (446) |
| Amounts written off | (130) | - |
| At 31 December | 2,032 | 2,634 |
| Gross impaired loans as a percentage of gross loans, advances and financing | 0.08% | 0.14% |

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

7.6.1 Collective assessment allowance

| | Group and Bank 2017 RM'000 | Group and Bank 2016 RM'000 |
|---|---|---|
| At 1 January | 16,822 | 9,268 |
| Allowance made during the year | 301 | 7,554 |
| At 31 December | 17,123 | 16,822 |
| As a percentage of gross loans, advances and financing less individual impairment provision | 0.71% | 0.88% |

7.6.2 Individual assessment allowance

| | Group and Bank 2017 RM'000 | Group and Bank 2016 RM'000 |
|---|---|---|
| At 1 January | 178 | 315 |
| Allowance made during the year | 30 | 126 |
| Amount recovered | (15) | (263) |
| Amount written off | (130) | - |
| At 31 December | 63 | 178 |

## 7. Loans, advances and financing (continued)

7.6.3 Impaired loans, advances and financing analysed by economic sector and geographical distribution are as follows:

| | Group and Bank | |
|---|---|---|
| | 2017 RM'000 | 2016 RM'000 |
| Household (Malaysia) | 2,032 | 2,634 |

## 8. Other assets

| | Group and Bank | |
|---|---|---|
| | 2017 RM'000 | 2016 RM'000 |
| Interest/Income receivable | 17,651 | 7,928 |
| Margin placed with exchange | 4,581 | 21,761 |
| Derivative assets (Note 33.3) | 1,302,496 | 2,778,605 |
| Other debtors, deposits and prepayments | 427,461 | 1,041,571 |
| | 1,752,189 | 3,849,865 |

## 9. Statutory deposit with Bank Negara Malaysia

The non-interest bearing statutory deposit is maintained with Bank Negara Malaysia in compliance with Section 26(2)(c) and Section 26(3) of the Central Bank of Malaysia Act, 2009, the amount of which is determined as a set percentage of total eligible liabilities.

## 10. Investments in subsidiary companies

| | Bank | |
|---|---|---|
| | 2017 RM'000 | 2016 RM'000 |
| Unquoted shares, at cost | 20 | 20 |

## 10. Investments in subsidiary companies (continued)

Details of the subsidiaries which are incorporated in Malaysia are as follows:

| Name | Principal activities | Effective ownership interest 2017 | Effective ownership interest 2016 |
|---|---|---|---|
| DB (Malaysia) Nominee (Tempatan) Sendirian Berhad | Nominee services | 100% | 100% |
| DB (Malaysia) Nominee (Asing) Sdn. Bhd. | Nominee services | 100% | 100% |

All income and expenditure in respect of the subsidiary companies operations are taken up by the Bank.

The subsidiary companies are audited by KPMG PLT.

## 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 2016 | 11,184 | 5,273 | 16,981 | 3,781 | 467 | 37,686 |
| Additions | 80 | 30 | 946 | 31 | - | 1,087 |
| At 31 December 2016/ 1 January 2017 | 11,264 | 5,303 | 17,927 | 3,812 | 467 | 38,773 |
| Additions | 30 | - | 268 | 5 | 547 | 850 |
| Disposals | - | - | - | - | (467) | (467) |
| At 31 December 2017 | 11,294 | 5,303 | 18,195 | 3,817 | 547 | 39,156 |
| ***Accumulated depreciation*** | | | | | | |
| At 1 January 2016 | 11,056 | 4,764 | 14,000 | 3,461 | 358 | 33,639 |
| Charge for the year | 84 | 162 | 537 | 66 | 94 | 943 |
| At 31 December 2016/ 1 January 2017 | 11,140 | 4,926 | 14,537 | 3,527 | 452 | 34,582 |
| Charge for the year | 109 | 110 | 548 | 60 | 109 | 936 |
| Disposals | - | - | - | - | (452) | (452) |
| At 31 December 2017 | 11,249 | 5,036 | 15,085 | 3,587 | 109 | 35,066 |
| ***Carrying amounts*** | | | | | | |
| At 1 January 2016 | 128 | 509 | 2,981 | 320 | 109 | 4,047 |
| At 31 December 2016/ 1 January 2017 | 124 | 377 | 3,390 | 285 | 15 | 4,191 |
| At 31 December 2017 | 45 | 267 | 3,110 | 230 | 438 | 4,090 |

## 12. Deferred tax assets

The recognised net deferred tax assets are attributable to the following:

| | Group and Bank | |
|---|---|---|
| | 2017 RM'000 | 2016 RM'000 |
| Plant and equipment - capital allowances | (19) | (103) |
| Collective impairment assessment for loans | 1,222 | 1,757 |
| Others | 26,096 | 34,107 |
| | 27,299 | 35,761 |

The movements in net deferred tax assets during the financial year are as follows:

| | Group and Bank | |
|---|---|---|
| | 2017 RM'000 | 2016 RM'000 |
| At 1 January | 35,761 | 26,543 |
| Recognised in profit or loss (Note 25) | (8,462) | 9,218 |
| At 31 December | 27,299 | 35,761 |

## 13. Deposits from customers

| | Group | | Bank | |
|---|---|---|---|---|
| | 2017 RM'000 | 2016 RM'000 | 2017 RM'000 | 2016 RM'000 |
| Demand deposits | 4,030,598 | 3,907,414 | 4,030,618 | 3,907,434 |
| Savings deposits | 2,884 | 3,136 | 2,884 | 3,136 |
| Fixed deposits | 315,594 | 115,040 | 315,594 | 115,040 |
| Other deposits | 277,941 | 259,550 | 277,941 | 259,550 |
| | 4,627,017 | 4,285,140 | 4,627,037 | 4,285,160 |

## 13. Deposits from customers (continued)

13.1 The maturity structure of fixed deposits and other deposits are as follows:

| | Group and Bank | |
|---|---|---|
| | 2017 RM'000 | 2016 RM'000 |
| Due within six months | 406,600 | 276,094 |
| More than six months to one year | 78,827 | 6,813 |
| More than one year to three years | - | 207 |
| More than five years | 108,108 | 91,476 |
| | 593,535 | 374,590 |

13.2 The deposits are sourced from the following type of customer:

| | Group | | Bank | |
|---|---|---|---|---|
| | 2017 RM'000 | 2016 RM'000 | 2017 RM'000 | 2016 RM'000 |
| Business enterprises | 3,663,481 | 3,564,977 | 3,663,501 | 3,564,997 |
| Individuals | 18,137 | 25,728 | 18,137 | 25,728 |
| Foreign customers | 200,568 | 109,666 | 200,568 | 109,666 |
| Others | 744,831 | 584,769 | 744,831 | 584,769 |
| | 4,627,017 | 4,285,140 | 4,627,037 | 4,285,160 |

## 14. Deposits and placements of banks and other financial institutions

| | Group and Bank | |
|---|---|---|
| | 2017 RM'000 | 2016 RM'000 |
| Other financial institutions | 658,943 | 1,441,194 |

## 15. Other liabilities

| | Group and Bank | |
|---|---|---|
| | 2017 RM'000 | 2016 RM'000 |
| Interest payable | 2,342 | 2,378 |
| Bills payable | 59,402 | 57,070 |
| Derivative liabilities (Note 33.3) | 1,576,409 | 2,819,612 |
| Employee benefits | 19,903 | 13,464 |
| Other liabilities | 788,405 | 1,514,083 |
| | 2,446,461 | 4,406,607 |

## 16. Share capital

| | Group and Company | | | |
|---|---|---|---|---|
| | Number of shares 2017 '000 | Amount 2017 RM'000 | Number of shares 2016 '000 | Amount 2016 RM'000 |
| Ordinary shares: | | | | |
| Issued and fully paid | | | | |
| At 1 January | 173,599 | 173,599 | 173,599 | 173,599 |
| Transfer from share premium in accordance with Section 618(2) of the Companies Act 2016 | - | 357,763 | - | - |
| At 31 December | 173,599 | 531,362 | 173,599 | 173,599 |

The Companies Act 2016, which came into effect on 31 January 2017, has abolished the concept of authorised share capital and par value of share capital.

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

During the financial year ended 31 December 2017, the Group and the Bank has transferred RM357,763,000 from share premium pursuant to the transition provisions set out in Section 618(2) of the Companies Act 2016.

There is no impact on the number of ordinary shares in issue or the relative entitlement of any of the members as a result of this transfer of the amount in the share premium account to share capital account.

## 17. Reserves

| | Group and Bank 2017 RM'000 | Group and Bank 2016 RM'000 |
|---|---|---|
| **Non-distributable:** | | |
| Share premium | - | 357,763 |
| Statutory reserve | - | 174,722 |
| Regulatory reserve | 13,558 | 13,558 |
| | 13,558 | 188,280 |
| **Distributable:** | | |
| Retained profits | 1,273,835 | 1,035,787 |
| | 1,287,393 | 1,581,830 |

The statutory reserve was maintained in compliance with Section 12 of the Financial Services Act, 2013 and was not distributable as cash dividends. During the financial year ended 31 December 2017, the Group and the Bank has transferred RM174,722,000 from reserve funds to its retained profits pursuant to the Revised Policy Document.

The regulatory reserve is maintained to comply with Bank Negara Malaysia's directive dated 4 February 2014 which required the Bank to maintain in aggregate, collective impairment provisions and regulatory reserves of not less than 1.2% of total outstanding loans/financing, net of individual impairment provision.

## 18. Interest income

| | Group and Bank 2017 RM'000 | Group and Bank 2016 RM'000 |
|---|---|---|
| Loans and advances | | |
| - Interest income other than recoveries from impaired loans | 77,592 | 54,567 |
| Money at call and deposit placements with financial institutions | 119,053 | 111,764 |
| Reverse repurchase agreements | 13,600 | 6,682 |
| Financial assets held-for-trading | 46,622 | 31,338 |
| Other interest income | 10 | - |
| | 256,877 | 204,351 |

## 19. Interest expense

| | Group and Bank 2017 RM'000 | Group and Bank 2016 RM'000 |
|---|---|---|
| Deposits and placements of banks and other financial institutions | 11,660 | 10,691 |
| Obligations on securities sold under repurchase agreements | 1 | 61 |
| Deposits from customers | 67,056 | 61,032 |
| | 78,717 | 71,784 |

## 20. Non-interest income

| | Group and Bank 2017 RM'000 | Group and Bank 2016 RM'000 |
|---|---|---|
| **Fee income:** | | |
| Commissions | 13,320 | 15,697 |
| Service charges and fees | 35,141 | 40,916 |
| Guarantee fees | 4,140 | 5,424 |
| | 52,601 | 62,037 |
| **Fee expense:** | | |
| Commissions | (4,023) | (5,881) |
| Service charges and fees | (10,190) | (10,414) |
| | (14,213) | (16,295) |
| **Net fee income** | 38,388 | 45,742 |
| **Net gains from financial instruments:** | | |
| Net gain arising on financial assets held-for-trading: | | |
| Realised gain | 18,407 | 15,139 |
| Unrealised gain/(loss) | 873 | (2,362) |
| Net loss arising on trading derivatives: | | |
| Realised loss | (49,255) | (137,929) |
| Unrealised loss | (236,845) | (493,847) |
| Foreign exchange gain | 485,364 | 789,849 |
| Gross dividend income | 88 | 108 |
| Gain on disposal of plant and equipment | 84 | - |
| **Other income:** | | |
| Other operating income, net | 8,314 | 17,311 |
| | 227,030 | 188,269 |
| | 265,418 | 234,011 |

## 21. Other operating expenses

| | Group and Bank 2017 RM'000 | Group and Bank 2016 RM'000 |
|---|---|---|
| Personnel costs | | |
| - Salaries, allowances and bonuses | 52,453 | 44,990 |
| - Contributions to Employees' Provident Fund | 8,823 | 7,731 |
| - Others | 6,949 | 6,072 |
| Establishment costs | | |
| - Rental | 2,905 | 2,911 |
| - Depreciation | 936 | 943 |
| - Others | 5,679 | 5,670 |
| Marketing expenses | 1,810 | 1,923 |
| Administration and general expenses | | |
| - Intercompany expenses | 60,744 | 58,408 |
| - Communication | 1,924 | 1,980 |
| - Auditors' remuneration | | |
| - statutory audit fee | 141 | 139 |
| - other services | 93 | 93 |
| - Professional fees | 9,471 | 24,500 |
| - Others | 20,099 | 10,840 |
| | 172,027 | 166,200 |

The number of employees of the Group and the Bank at the end of the year was 238 (2016: 223).

## 22. Allowance made for impairment on loans, advances and financing

| | Group and Bank 2017 RM'000 | Group and Bank 2016 RM'000 |
|---|---|---|
| Individual assessment allowance | | |
| - made during the year | (30) | (126) |
| - written back | 15 | 263 |
| Collective assessment allowance made during the year | (301) | (7,554) |
| Recoveries from bad debts written off | - | 1,692 |
| | (316) | (5,725) |

## 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 or the Bank 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 Bank and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

The Group has related party relationship with its holding company, 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 Group and the Bank are as follows:

| **2017** | **Holding company RM'000** | **Subsidiary companies RM'000** | **Other related companies RM'000** |
|---|---|---|---|
| ***Income*** | | | |
| Interest on advances and deposits | 131 | - | 856 |
| Fee income | 9,529 | - | 2,238 |
| Other operating income | 4,288 | - | 4,017 |
| | 13,948 | - | 7,111 |
| ***Expenditure*** | | | |
| Interest on deposits | 5,464 | - | 38 |
| Fee expenses | 336 | - | 9,097 |
| Other operating expenses | 54,461 | - | 6,983 |
| | 60,261 | - | 16,118 |
| ***Amount due from*** | | | |
| Cash and short-term funds | 184,000 | - | 645 |
| Other assets | | | |
| - Others | 45,326 | - | 1,258 |
| - Derivatives | 359,803 | - | 18,754 |
| | 589,129 | - | 20,657 |

## 23. Related parties (continued)

| 2017 | 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 | 155,583 | 20 | 22,474 |
| Other liabilities | | | |
| - Others | 217,124 | - | 9,107 |
| - Derivatives | 312,728 | - | 845 |
| - Interest payable | - | - | 8 |
| | 685,435 | 20 | 32,434 |

| 2016 | Holding company RM'000 | Subsidiary companies RM'000 | Other related companies RM'000 |
|---|---|---|---|
| ***Income*** | | | |
| Interest on advances and deposits | 2,537 | - | - |
| Fee income | 9,515 | - | 11,093 |
| Other operating income | 10,706 | - | 5,648 |
| | 22,758 | - | 16,741 |
| ***Expenditure*** | | | |
| Interest on advances | 3,868 | - | 81 |
| Fee expenses | 317 | - | 8,440 |
| Other operating expenses | 57,330 | - | 1,887 |
| | 61,515 | - | 10,408 |
| ***Amount due from*** | | | |
| Cash and short-term funds | 414,164 | - | 608 |
| Other assets | | | |
| - Others | 21,484 | - | 2,315 |
| - Derivatives | 355,661 | - | 316 |
| | 791,309 | - | 3,239 |
| ***Amount due to*** | | | |
| Deposits and placements of banks and other financial institutions | 983,533 | 20 | 31,360 |
| Other liabilities | | | |
| - Others | 143,857 | - | 10,508 |
| - Derivatives | 285,924 | - | 9,376 |
| - Interest payable | 78 | - | 9 |
| | 1,413,392 | 20 | 51,253 |

## 23. Related parties (continued)

**Credit transactions and exposures with connected parties**

| | Group and Bank | |
|---|---|---|
| | **2017** | **2016** |
| | **RM'000** | **RM'000** |
| Outstanding credit exposures with connected parties | 408,470 | 648,324 |
| Of which: | | |
| Total credit exposures which is non-performing | - | - |
| Total credit exposures | 9,732,066 | 10,928,832 |
| Percentage of outstanding credit exposures to connected parties | | |
| - as a proportion of total credit exposures | 4.20% | 5.93% |
| - as a proportion of capital base | 22.64% | 37.45% |
| - 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 compensation are as follows:

| | Group and Bank 2017 RM'000 | Group and Bank 2016 RM'000 |
|---|---|---|
| **Executive Directors** | | |
| Dato' Yusof Annuar bin Yaacob (Chief Executive Officer) | | |
| - Salary and other remuneration | 2,583 | 2,424 |
| - Bonuses | 2,545 | 973 |
| - Benefits-in-kind | 42 | 39 |
| Seamus Toal | | |
| - Salary and other remuneration | - | - |
| - Bonuses | - | - |
| - Benefits-in-kind | - | - |
| **Non-Executive Directors** | | |
| Fees | | |
| - Tun Mohamed Dzaiddin bin Haji Abdullah | - | 300 |
| - Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin | 280 | 101 |
| - Dato' Ahmad Johari bin Abdul Razak | - | 130 |
| - Mr Ng Soon Lai @ Ng Siek Chuan | - | 150 |
| - Mr Steven Choy Khai Choon | 150 | 150 |
| - Madam Koid Swee Lian | 150 | 10 |
| Other remuneration | | |
| - Tun Mohamed Dzaiddin bin Haji Abdullah | - | 52 |
| - Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin | 51 | 19 |
| - Dato' Ahmad Johari bin Abdul Razak | - | 19 |
| - Mr Ng Soon Lai @ Ng Siek Chuan | - | 43 |
| - Mr Steven Choy Khai Choon | 52 | 41 |
| - Madam Koid Swee Lian | 47 | - |
| | 5,900 | 4,451 |
| Other key management personnel | | |
| - Short-term employee benefits | 13,020 | 4,297 |
| - Share-based payments | 1,457 | 1 |
| | 14,477 | 4,298 |

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.

## 25. Tax expense

| | Group and Bank 2017 RM'000 | Group and Bank 2016 RM'000 |
|---|---|---|
| Current income tax | | |
| Current year | 59,500 | 52,106 |
| (Over)/Under provision in prior year | (4,238) | 5,345 |
| | 55,262 | 57,451 |
| Deferred tax expense | | |
| Origination and reversal of temporary differences | 7,106 | (1,841) |
| Under/(Over) provision in prior year | 1,356 | (7,377) |
| | 8,462 | (9,218) |
| | 63,724 | 48,233 |
| **Reconciliation of tax expense** | | |
| Profit before tax | 274,089 | 195,272 |
| Tax at Malaysian tax rate of 24% | 65,781 | 46,865 |
| Non-deductible expenses | 825 | 3,400 |
| | 66,606 | 50,265 |
| Overprovision in prior year | (2,882) | (2,032) |
| | 63,724 | 48,233 |

## 26. Earnings per share

**Basic earnings per share**

The calculation of basic earnings per share for the year ended 31 December 2017 was based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding, calculated as follows:

| | Group | |
|---|---|---|
| | **2017** **RM'000** | **2016** **RM'000** |
| Profits attributable to ordinary shareholders | 210,365 | 147,039 |
| Weighted average number of ordinary shares - Issued ordinary shares during the year | 173,599 | 173,599 |

| | Group | |
|---|---|---|
| | **2017** **(sen)** | **2016** **(sen)** |
| Basic earnings per share | 121.2 | 84.7 |

**Diluted earnings per share**

The Group has no dilution in its earnings per ordinary share in the current financial year as the Group does not have dilutive instruments.

## 27. Dividends

Dividends recognised by the Bank:

| | Group and Bank | | |
|---|---|---|---|
| **2016** | **Sen per share** | **Total amount RM'000** | **Date of Payment** |
| Final 2016 ordinary | 84.7 | 147,039 | 22 June 2017 |

After the end of the reporting period, the Directors recommended final dividend of 89.3 sen per ordinary share totalling RM155,000,000 in respect of the financial year ended 31 December 2017. This dividend will be recognised in the subsequent financial year upon approval by the shareholders of the Bank.

## 28. Operating leases

**Leases as lessee**

Non-cancellable operating lease rentals are payable as follows:

| | Group and Bank | |
|---|---|---|
| | **2017 RM'000** | **2016 RM'000** |
| Less than one year | 559 | 2,805 |
| Between one and five years | 105 | 454 |
| | 664 | 3,259 |

The Group and the Bank lease 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 2017 RM'000 | Bank 2016 RM'000 |
|---|---|---|
| Components of Tier 1 and Tier 2 capital are as follows: | | |
| Tier 1 capital | | |
| Paid-up share capital | 531,362 | 173,599 |
| Share premium | - | 357,763 |
| Statutory reserve | - | 174,722 |
| Retained profits | 1,273,835 | 1,035,787 |
| Less: Deferred tax assets | (27,299) | (35,761) |
| Total common equity tier 1/Total tier 1 capital | 1,777,898 | 1,706,110 |
| Tier 2 capital | | |
| Collective assessment allowance # | 12,486 | 11,351 |
| Regulatory reserve | 13,558 | 13,558 |
| Total capital base | 1,803,942 | 1,731,019 |
| Common equity tier 1/Tier 1 capital ratio | 21.332% | 21.868% |
| Total capital ratio | 21.645% | 22.187% |

The capital adequacy ratios of the Group and of the Bank are computed in accordance with Bank Negara Malaysia's Capital Adequacy Framework (Capital Components and Basel II – Risk-weighted Assets). 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.

# Excludes collective assessment allowance which is restricted from Tier 2 capital of the Bank of RM4,637,000 (2016: RM5,471,000).

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

| RISK TYPE | | Risk Weighted Assets 2017 RM'000 | Risk Weighted Assets 2016 RM'000 |
|---|---|---|---|
| 1 | Credit risk | 4,697,225 | 4,617,845 |
| 2 | Market risk | 2,949,956 | 2,570,452 |
| 3 | Operational risk | 687,157 | 613,663 |
| **Total** | | **8,334,338** | **7,801,960** |

Company No. 312552-W

## 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:

| 2017<br>Group and Bank | Principal Amount | Credit Equivalent Amount | Risk Weighted Assets |
|---|---|---|---|
| | RM'000 | RM'000 | RM'000 |
| **Direct Credit Substitutes** | - | - | - |
| **Transaction Related Contingent Items** | 789,185 | 394,592 | 366,594 |
| **Short-Term Self Liquidating Trade Related contingencies** | 77,089 | 15,418 | 8,697 |
| **Foreign exchange related contracts** | | | |
| One year or less | 10,324,163 | 211,993 | 195,970 |
| Over one year to five years | 521,424 | 32,969 | 32,969 |
| Over five years | 310,475 | 34,152 | 17,076 |
| **Interest/Profit rate related contracts** | | | |
| One year or less | 493,754 | 1,592 | 966 |
| Over one year to five years | 1,018,769 | 214,936 | 208,671 |
| Over five years | 538,386 | 37,823 | 35,399 |
| **Equity related contracts** | | | |
| One year or less | - | - | - |
| Over one year to five years | - | - | - |
| Over five years | - | - | - |
| **Credit Derivative Contracts** | | | |
| One year or less | - | - | - |
| Over one year to five years | - | - | - |
| Over five years | - | - | - |
| **OTC Derivative transactions and credit derivative contracts subject to valid bilateral netting agreements** | 91,265,175 | 1,524,326 | 305,035 |
| **Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year** | 575,451 | 287,725 | 287,725 |
| **Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year** | 3,055,448 | 611,090 | 599,730 |
| **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** | - | - | - |
| **Total** | 108,969,319 | 3,366,616 | 2,058,832 |

Company No. 312552-W

## 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):

| 2016<br>Group and Bank | Principal Amount | Credit Equivalent Amount | Risk Weighted Assets |
|---|---|---|---|
| | RM'000 | RM'000 | RM'000 |
| **Direct Credit Substitutes** | - | - | - |
| **Transaction Related Contingent Items** | 724,468 | 362,234 | 335,371 |
| **Short-Term Self Liquidating Trade Related contingencies** | 279,829 | 55,966 | 47,622 |
| **Foreign exchange related contracts** | | | |
| One year or less | 8,725,219 | 404,482 | 394,771 |
| Over one year to five years | 1,264,985 | 84,078 | 84,078 |
| Over five years | 310,475 | 34,152 | 17,076 |
| **Interest/Profit rate related contracts** | | | |
| One year or less | 247,678 | 83,038 | 83,038 |
| Over one year to five years | 1,187,649 | 31,645 | 18,541 |
| Over five years | 33,663 | 3,366 | 673 |
| **Equity related contracts** | | | |
| One year or less | - | - | - |
| Over one year to five years | - | - | - |
| Over five years | - | - | - |
| **Credit Derivative Contracts** | | | |
| One year or less | - | - | - |
| Over one year to five years | - | - | - |
| Over five years | - | - | - |
| **OTC Derivative transactions and credit derivative contracts subject to valid bilateral netting agreements** | 97,368,433 | 2,461,119 | 515,432 |
| **Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year** | 224,027 | 112,014 | 112,014 |
| **Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year** | 2,327,414 | 465,483 | 454,123 |
| **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** | - | - | - |
| **Total** | 112,693,840 | 4,097,577 | 2,062,739 |

## 31. Capital management

The wide variety of the Group’s businesses requires the Group to identify, measure, aggregate and allocate capital among the businesses appropriately. The Group manages capital through a framework of principles, organisational structures as well as measurement and monitoring processes that are closely aligned with the activities of group divisions. While the Group 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.

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

The Group’s and the 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 the 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 and liquidity risk, as well as non-financial risks (including operational risk), and reputational risks. These risk areas are actively managed by dedicated divisions such as the Market Risk Management Division, Credit Risk Management Division, Liquidity Risk Control Division and Operational Risk Management Division. Treasury is responsible for overall liquidity management of the Bank including proposing liquidity risk limits in line with the tolerance/risk appetite applied by Liquidity Risk Control Division. 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)

**Risk management**

The Group and the Bank has exposure to the following risks from its use of financial instruments:

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

**Credit risk**

Credit risk is the risk of any transactions giving rise to actual, contingent or potential claims against any counterparty, obligor or borrower, where the Group and the Bank bears the risk of loss if the counterparty, obligor or borrower 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, credit strategies for the major industries, and product specific policies are the principal instruments to determine the Bank's risk appetite, as well as 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 statements 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 | |
|---|---|---|
| | **2017** | **2016** |
| | **RM'000** | **RM'000** |
| Impaired | 2,032 | 2,634 |
| Past due but not impaired | 5,507 | 6,416 |
| Neither past due nor impaired | 2,401,400 | 1,898,478 |
| | 2,408,939 | 1,907,528 |

# 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 90 days/three (3) months or more;
(b) where a loan is in arrears for less than three (3) months, the loan exhibits indications of significant credit weaknesses; 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.

### (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 or 90 days.

Company No. 312552-W

## 32. Risk management (continued)

**Credit risk (continued)**

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

**(ii) Past due but not impaired (continued)**

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

| | Group and Bank | |
|---|---|---|
| | **2017** | **2016** |
| | **RM'000** | **RM'000** |
| **Past due but not impaired** | | |
| 1 day to 30 days | 1,846 | 2,167 |
| 31 days to <60 days | 1,618 | 1,671 |
| 60 days to <90 days | 2,043 | 2,578 |
| Carrying amount | 5,507 | 6,416 |

**(iii) Neither past due nor impaired**

As at the reporting date, the Group and the Bank recorded loans, advances and financing that are neither past due nor impaired of RM2,401,560,000 (2016: RM1,898,478,000), of which RM1,795,006,000 (2016: RM1,223,569,000) and RM606,554,000 (2016: RM674,909,000) are loans and advances to customers and loans and advances to banks respectively.

No loan was renegotiated during the year (2016: Nil).

**(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 property collateral held against outstanding loans, advances and financing to customers is as per below.

| | **2017** | **2016** |
|---|---|---|
| | **RM'000** | **RM'000** |
| Against individually impaired | 6,676 | 5,212 |
| Against past due but not impaired | 20,709 | 20,100 |
| Against neither past due nor impaired | 19,894 | 20,292 |
| | 47,279 | 45,604 |

## 32. Risk management (continued)

**Credit risk (continued)**

### (c) Credit quality of financial instruments

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

| Group and Bank | Financial assets held-for-trading RM'000 | Financial investments available-for-sale RM'000 |
|---|---|---|
| **2017** | | |
| **Domestic Rating** | | |
| AAA+ to AA- | - | 100 |
| A+ to A- | 1,445,802 | - |
| Unrated | - | 1,491 |
| | 1,445,802 | 1,591 |
| **2016** | | |
| **Domestic Rating** | | |
| AAA+ to AA- | 2,085 | 100 |
| A+ to A- | 633,160 | - |
| Unrated | - | 1,491 |
| | 635,245 | 1,591 |

### (d) Fair value of collateral held against derivative assets

The Group and the Bank hold collateral against derivative assets to banks and financial institutions counterparties in the form of cash of RM557,327,871 (2016: RM1,101,643,160) as at the 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, commodity rates and other market risks), the correlations among them and their levels of volatility.

## 32. Risk management (continued)

**Market risk (continued)**

***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") and stress testing metrics to manage market risks and establish limits. Steered by the Group Risk Committee, the Market Risk & Liquidity Management team, which is part of the Group's independent risk management function, is responsible for managing the market risk of the Bank. Limits, set commensurate to the risk appetite in terms of VaR, are communicated to the appropriate personnel along with the limit structure for each business division. The majority of the interest rate risk arising from non-trading asset and liability positions is transferred through internal hedges to Treasury and is thus managed on the basis of Banking Book Value-at-Risk.

A summary of the VaR position of the Bank's portfolios is as follows:

| | At 31 December RM'000 | Average RM'000 | Maximum RM'000 | Minimum RM'000 |
|---|---|---|---|---|
| **2017** | | | | |
| Interest Rate Risk: | | | | |
| Market Risk | 3,273 | 3,900 | 8,577 | 2,320 |
| Specific Risk | 4 | 10 | 31 | 4 |
| Foreign Exchange Risk | 3,058 | 2,730 | 8,122 | 462 |
| Commodity Risk | 884 | 1,225 | 7,148 | 287 |
| Equity Risk | 2,742 | 2,339 | 5,985 | 66 |
| Total VaR | 5,842 | 5,762 | 9,011 | 3,737 |
| **2016** | | | | |
| Interest Rate Risk: | | | | |
| Market Risk | 5,739 | 3,982 | 8,419 | 1,827 |
| Specific Risk | 31 | 453 | 945 | 31 |
| Foreign Exchange Risk | 1,310 | 2,635 | 9,039 | 236 |
| Commodity Risk | 251 | 567 | 2,853 | - |
| Equity Risk | 1,249 | 343 | 1,787 | - |
| Total VaR | 5,980 | 5,102 | 11,197 | 2,246 |

## 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 or overstate risk.

(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 the Group believes the assumptions are reasonable, there is no standard value-at-risk methodology to follow. Different assumptions may 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.

## 32. Risk management (continued)

**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***

The objective of the Liquidity Management ("LM") function is to ensure that the Bank can fulfill its payment obligations at all times at reasonable cost, without affecting daily operations of the Bank. All relevant and significant drivers of liquidity risk, on-balance sheet as well as off-balance sheet, are taken into account. Prices of all asset and liability types reflect their liquidity risk characteristics and the Bank's cost of funding. Liquidity management is a governance function which does not report to any business division and which adheres to the Basel principles of sound liquidity risk management.

Liquidity risk is managed through the Asset and Liability Committee ("ALCO"). This committee, chaired by the Treasurer, is responsible for both statutory and prudential liquidity management of the Bank including the approval of liquidity risk limits which are in line with the tolerance/risk appetite applied by Liquidity Risk Control ("LRC"). Decisions prepared by the ALCO for DBMB are submitted to the Board Risk Management Committee and Board of Directors for notification.

Liquidity risk is monitored through local liquidity regulations issued by Bank Negara Malaysia, such as Liquidity Coverage Ratio and the internal liquidity risk management policy. A prudent liquidity risk model is based on two main liquidity risk models such as stress testing and funding matrix. The Bank's stress testing methodology adequately reflects the Bank's business-specific risks and complexity embedded in its business model. Stress testing is monitored on a daily basis, reported to the ALCO at its regular meetings.

## 32. Risk management (continued)

**Liquidity risk (continued)**

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

The following tables present the maturity analysis for financial liabilities as at 31 December 2017 and 31 December 2016:

| Group<br>2017 | Up to 7 Days<br>RM'000 | > 7 Days - 1 Month<br>RM'000 | > 1-3 Months<br>RM'000 | > 3-6 Months<br>RM'000 | > 6-12 Months<br>RM'000 | > 1 Year<br>RM'000 | Total<br>RM'000 |
|---|---|---|---|---|---|---|---|
| Deposits from customers | 4,208,639 | 114,765 | 14,430 | 102,248 | 78,827 | 108,108 | 4,627,017 |
| Deposits and placements of banks and other financial institutions | 657,031 | - | 1,912 | - | - | - | 658,943 |
| Derivative liabilities | 211,768 | 129,042 | 122,916 | 192,052 | 203,031 | 717,600 | 1,576,409 |
| Other liabilities | 744,990 | 9,425 | 20,474 | 722 | 172 | 94,269 | 870,052 |
| **Total liabilities** | 5,822,428 | 253,232 | 159,732 | 295,022 | 282,030 | 919,977 | 7,732,421 |

Company No. 312552-W

## 32. Risk management (continued)

**Liquidity risk (continued)**

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

| Group<br>2016 | Up to 7 Days<br>RM'000 | > 7 Days - 1 Month<br>RM'000 | > 1-3 Months<br>RM'000 | > 3-6 Months<br>RM'000 | > 6-12 Months<br>RM'000 | > 1 Year<br>RM'000 | Total<br>RM'000 |
|---|---|---|---|---|---|---|---|
| Deposits from customers | 4,066,804 | 103,442 | 12,610 | 3,789 | 6,813 | 91,682 | 4,285,140 |
| Deposits and placements of banks and other financial institutions | 1,441,194 | - | - | - | - | - | 1,441,194 |
| Derivative liabilities | 281,317 | 230,476 | 180,048 | 416,129 | 352,270 | 1,359,372 | 2,819,612 |
| Other liabilities | 1,563,197 | 202 | 183 | 78 | 52 | 23,283 | 1,586,995 |
| **Total liabilities** | 7,352,512 | 334,120 | 192,841 | 419,996 | 359,135 | 1,474,337 | 10,132,941 |

The above disclosure remains appropriate for the Bank level except that included in the deposits from customers is RM20,000 (2016: RM20,000) cash consolidated from the subsidiaries with remaining contractual maturity of up to 7 days.

# 32. Risk management (continued)

**Liquidity risk (continued)**

**(b) Maturity analysis of financial liabilities on an undiscounted basis**

The following tables show the contractual undiscounted cash flows payable for financial liabilities by remaining contractual maturity. The financial liabilities in the tables below will not agree to the carrying amounts reported in the statements of financial position as the tables incorporate all contractual cash flows, on an undiscounted basis, relating to both principal and interest payments.

| 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 |
|---|---|---|---|---|---|---|---|
| **2017** | | | | | | | |
| Deposits from customers | 4,208,678 | 114,907 | 14,493 | 102,811 | 79,408 | 141,814 | 4,662,111 |
| Deposits and placements of banks and other financial institutions | 657,068 | - | 1,913 | - | - | - | 658,981 |
| Derivative liabilities | 213,381 | 117,534 | 131,047 | 82,971 | 154,748 | 445,827 | 1,145,508 |
| Other liabilities | 744,990 | 9,425 | 20,474 | 722 | 172 | 94,269 | 870,052 |
| **Total liabilities** | 5,824,117 | 241,866 | 167,927 | 186,504 | 234,328 | 681,910 | 7,336,652 |

## 32. Risk management (continued)

**Liquidity risk (continued)**

**(b) Maturity analysis of financial liabilities on an undiscounted basis (continued)**

| Group 2016 | 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 |
|---|---|---|---|---|---|---|---|
| Deposits from customers | 4,066,838 | 103,597 | 12,669 | 3,827 | 6,942 | 123,968 | 4,317,841 |
| Deposits and placements of banks and other financial institutions | 1,441,256 | - | - | - | - | - | 1,441,256 |
| Derivative liabilities | 282,913 | 75,020 | 356,355 | 393,830 | 296,242 | 907,475 | 2,311,835 |
| Other liabilities | 1,563,197 | 202 | 183 | 78 | 52 | 23,283 | 1,586,995 |
| **Total liabilities** | 7,354,204 | 178,819 | 369,207 | 397,735 | 303,236 | 1,054,726 | 9,657,927 |

The above disclosure remains appropriate for the Bank level except that included in the deposits from customers is RM20,000 (2016: RM20,000) cash consolidated from the subsidiaries with remaining contractual maturity of up to 7 days.

## 32. Risk management (continued)

**Operational Risk**

**Operational Risk Framework**

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

Group Operational Risk Management ("Group ORM") has the responsibility for the design, implementation and maintenance of the Operational Risk Management Framework ("ORMF") including the associated governance structures. Group ORM also has the responsibility for providing a cross-risk assessment and aggregation of risks to provide a holistic portfolio view of the non-financial risk profile of the Bank, which includes oversight of risk and control mitigation plans to return risk within risk appetite, where required.

The Bank takes decisions to manage operational risks, both strategically as well as in day-to-day business. Four principles form the foundation of the Operational Risk Management Framework ("ORMF") at Deutsche Bank:

Operational Risk Principle I: Risk owners have full accountability for their operational risks and have to manage against a defined risk specific appetite. Risk owners are defined to be: First Line of Defence ("LoD") (GM, CIB, Deutsche AM, PW&CC, NCOU and first LoD Infrastructure Functions), for all of their operational risks, and second LoD control functions (Infrastructure Functions), for the operational risks that arise in their own activities and processes.

Risk owners are accountable for managing all operational risks in their business/processes with an end-to-end process view, within a defined operational risk specific appetite and for identifying, establishing and maintaining risk owner (i.e. Level 1) controls. In addition they mitigate identified and assessed risk within the risk specific appetite through remediation actions, insurance or by ceasing/reducing business activities.

Divisional Control Officers, or the equivalent in infrastructure functions, support the risk owners. They are responsible for embedding the ORMF within the relevant business division or infrastructure function. They assess the effectiveness of the Level 1 Controls, monitor the aggregated risk profile and put the appropriate control and mitigating actions in place within the relevant division. The Divisional Control Officers also establish appropriate governance forums to oversee the operational risk profile and are involved in decision making processes.

# 32. Risk management (continued)

**Operational Risk (continued)**

**Operational Risk Framework (continued)**

Operational Risk Principle II: Risk Type Controllers are independent second LoD control functions that control specific risk types as identified in the Operational Risk Type Taxonomy.

Risk Type Controllers are responsible for establishing an effective risk management framework for the risk type they control. They define risk type taxonomy and minimum control standards and set the risk specific appetite. Risk Type Controllers challenge, assess and report the risks in their remit and perform Level 2 Controls, complementary to the Level 1 Controls. Finally they establish independent operational risk governance, and prepare aggregated reporting into the Group Non-Financial Risk Committee.

Operational Risk Principle III: Group ORM establishes and maintains the Group Operational Risk Management Framework. Group ORM develops and maintains the Group's framework, defining the roles and responsibilities for the management of operational risk across the Bank and the process to identify, assess, mitigate, monitor, report and escalate operational risks. Group ORM also maintains the operational risk type taxonomy and oversees the completeness of coverage of risk types identified in the taxonomy by second LoD control functions, in line with the Group wide risk taxonomy standards. It also provides the tools for, and monitors execution and results of, the Group's Risk and Control Assessment process.

Group ORM also provides independent challenge of the Group's operational risk profile providing independent risk views to facilitate forward looking management of the risks. The function independently reviews, monitors and assesses material risks and key controls at a divisional and infrastructure level across the Bank. It further monitors and reports on the Group's operational risk profile in comparison to the Group Risk Appetite, to systematically identify operational risk themes and concentrations, and to oversee that risk mitigating measures and priorities have been agreed. Group ORM establishes reporting and escalating procedures up to the Management Board for risk assessment results and identified material control gaps, while informing Group Audit of material control gaps.

## 32. Risk management (continued)

**Operational Risk (continued)**

**Operational Risk Framework (continued)**

Operational Risk Principle IV: Group Operational Risk Management aims to maintain sufficient capital to underpin operational risk. Group ORM is accountable for the design, implementation and maintenance of an appropriate approach to determine a sufficient level of capital demand for operational risk for recommendation to the Management Board. To fulfill this requirement Group ORM is accountable for the calculation and allocation of operational risk capital demand and Expected Loss planning under the Advanced Measurement Approach ("AMA"). Group ORM is also accountable for the facilitation of the annual operational risk capital planning and monthly review process.

# 33. Financial assets and liabilities

## 33.1 Categories of financial instruments

The table below provides an analysis of financial instruments categorised as follows:
(a) Loans and receivables ("L&R");
(b) Fair value through profit or loss ("FVTPL") – Held-for-trading ("HFT");
(c) Available-for-sale financial assets ("AFS"); and
(d) Financial liabilities measured at amortised cost ("FL").

| Group 2017 | Carrying amount RM'000 | L&R/ FL RM'000 | FVTPL-HFT RM'000 | AFS RM'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash and short-term funds | 3,416,228 | 3,416,228 | - | - |
| Deposits and placements with banks and other financial institutions | 333,033 | 333,033 | - | - |
| Reverse repurchase agreements | 69,042 | - | 69,042 | - |
| Financial assets held-for-trading | 1,445,802 | - | 1,445,802 | - |
| Financial investments available-for-sale | 1,591 | - | - | 1,591 |
| Loans, advances and financing | 2,391,753 | 2,391,753 | - | - |
| Derivative assets (Note 33.3) | 1,302,496 | - | 1,302,496 | - |
| Statutory deposit with Bank Negara Malaysia | 100,000 | 100,000 | - | - |
| | 9,059,945 | 6,241,014 | 2,817,340 | 1,591 |
| **Financial liabilities** | | | | |
| Deposits from customers | 4,627,017 | 4,627,017 | - | - |
| Deposits and placements of banks and other financial institutions | 658,943 | 658,943 | - | - |
| Derivative liabilities (Note 33.3) | 1,576,409 | - | 1,576,409 | - |
| | 6,862,369 | 5,285,960 | 1,576,409 | - |

# 33. Financial assets and liabilities (continued)

## 33.1 Categories of financial instruments (continued)

| Group 2016 | Carrying amount RM'000 | L&R/ FL RM'000 | FVTPL- HFT RM'000 | AFS RM'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash and short-term funds | 4,608,452 | 4,608,452 | - | - |
| Deposits and placements with banks and other financial institutions | 1,126 | 1,126 | - | - |
| Reverse repurchase agreements | 608,641 | - | 608,641 | - |
| Financial assets held-for trading | 635,245 | - | 635,245 | - |
| Financial investments available-for-sale | 1,591 | - | - | 1,591 |
| Loans, advances and financing | 1,890,528 | 1,890,528 | - | - |
| Derivative assets (Note 33.3) | 2,778,605 | - | 2,778,605 | - |
| Statutory deposit with Bank Negara Malaysia | 250,000 | 250,000 | - | - |
| | 10,774,188 | 6,750,106 | 4,022,491 | 1,591 |
| **Financial liabilities** | | | | |
| Deposits from customers | 4,285,140 | 4,285,140 | - | - |
| Deposits and placements of banks and other financial institutions | 1,441,194 | 1,441,194 | - | - |
| Derivative liabilities (Note 33.3) | 2,819,612 | - | 2,819,612 | - |
| | 8,545,946 | 5,726,334 | 2,819,612 | - |

The above disclosure is also applicable for the Bank level except that included in the deposits from customers is RM20,000 (2016: RM20,000) cash consolidated from the subsidiaries.

## 33.2 Determination of fair value and the fair value hierarchy

MFRS 13 *Fair Value Measurement* requires each class of assets and liabilities measured at fair value in the statements of financial position after initial recognition to be categorised according to hierarchy that reflects the significance of inputs used in making the measurements, in particular, whether the inputs used are observable or unobservable as discussed in Note 2(c)(vi).

# 33. Financial assets and liabilities (continued)

## 33.2 Determination of fair value and the fair value hierarchy (continued)

### 33.2.1 Financial instruments carried at fair value

The following table shows the Group's and the Bank's financial instruments which are measured at fair value at the reporting date analysed by the various level within the fair value hierarchy:

| | Level 1 RM'000 | Level 2 RM'000 | Level 3 RM'000 |
|---|---|---|---|
| **2017** | | | |
| **Financial assets** | | | |
| Reverse repurchase agreements | - | 69,042 | - |
| Financial assets held-for-trading | - | 1,445,802 | - |
| Derivative assets | - | 1,175,818 | 126,678 |
| | - | 2,690,662 | 126,678 |
| **Financial liabilities** | | | |
| Derivative liabilities | - | (1,469,206) | (107,203) |
| **2016** | | | |
| **Financial assets** | | | |
| Reverse repurchase agreements | - | 608,641 | - |
| Financial assets held-for-trading | - | 635,245 | - |
| Derivative assets | - | 2,705,344 | 73,261 |
| | - | 3,949,230 | 73,261 |
| **Financial liabilities** | | | |
| Derivative liabilities | - | (2,806,430) | (13,182) |

# 33. Financial assets and liabilities (continued)

## 33.2 Determination of fair value and the fair value hierarchy (continued)

### 33.2.1 Financial instruments carried at fair value (continued)

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

| | 2017 RM'000 | 2016 RM'000 |
|---|---|---|
| **Financial assets** | | |
| Balance at 1 January | 73,261 | 5,146 |
| Total gain recognised in profit or loss: | | |
| -*Settlements* | (41,833) | (139) |
| -*Attributable to gains recognised relating to financial assets that have not been realised* | 95,250 | 68,254 |
| Balance at 31 December | 126,678 | 73,261 |
| **Financial liabilities** | | |
| Balance at 1 January | (13,182) | (4,371) |
| Total gain recognised in profit or loss: | | |
| -*Settlements* | 606 | 1,169 |
| -*Attributable to losses recognised relating to financial liabilities that have not been realised* | (94,627) | (9,980) |
| Balance at 31 December | (107,203) | (13,182) |

The unrealised gains/(losses) have been recognised net within non-interest income in profit or loss as shown in Note 20.

# 33. Financial assets and liabilities (continued)

## 33.2 Determination of fair value and the fair value hierarchy (continued)

### 33.2.2 Financial instruments not carried at fair value

In respect of cash and short-term funds, other assets (excluding derivatives), statutory deposit with Bank Negara Malaysia, deposit with banks and other financial institutions, deposits and placements of banks and other financial institutions and other liabilities (excluding derivatives), the carrying amounts in the statements of financial position approximate their fair values due to the relatively short term/on demand nature of these financial instruments.

The fair values of other financial assets/liabilities, together with the carrying amounts shown in the statements of financial position, are as follows:

| Group | Carrying value RM'000 | Fair value RM'000 |
|---|---|---|
| **2017** | | |
| **Financial assets** | | |
| Loans, advances and financing | 2,391,753 | 2,391,472 |
| **Financial liabilities** | | |
| Deposits from customers | 4,627,017 | 4,735,125 |
| **2016** | | |
| **Financial assets** | | |
| Loans, advances and financing | 1,890,528 | 1,890,125 |
| **Financial liabilities** | | |
| Deposits from customers | 4,285,140 | 4,311,003 |

# 33. Financial assets and liabilities (continued)

## 33.2 Determination of fair value and the fair value hierarchy (continued)

### 33.2.2 Financial instruments not carried at fair value (continued)

The disclosure is also applicable for the Bank level except that included in the deposits from customers is RM20,000 (2016: RM20,000) cash consolidated from the subsidiaries.

***(a) 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 instalment 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 allowance for impaired debts and financing.

***(b) Deposits from customers***

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.

The fair value of loans, advances and financing and deposits from customers shown above are classified under Level 3 within the fair value hierarchy disclosure in accordance to MFRS 7.

# 33. Financial assets and liabilities (continued)

## 33.3 Derivative financial instruments

The following table shows the notional and market values of the derivatives financial instrument as at 31 December 2017 and 31 December 2016:

| | | Group and Bank | |
|---|---|---|---|
| | **Notional RM'000** | **Positive market value RM'000** | **Negative market value RM'000** |
| **2017** | | | |
| **Foreign exchange related contracts** | | | |
| Forward exchange trades | 40,703,030 | 399,094 | (570,505) |
| Cross currency swaps | 8,627,198 | 675,198 | (683,540) |
| Foreign exchange options | 12,163 | - | (273) |
| **Interest/Profit rate related contracts** | | | |
| Swaption | 1,454,319 | 17,101 | (83,492) |
| Interest rate swap | 53,558,391 | 210,791 | (238,498) |
| **Credit derivatives contracts** | 117,045 | 312 | (101) |
| | 104,472,146 | 1,302,496 | (1,576,409) |
| **2016** | | | |
| **Foreign exchange related contracts** | | | |
| Forward exchange trades | 31,365,121 | 769,083 | (568,258) |
| Cross currency swaps | 13,467,123 | 1,781,978 | (1,933,430) |
| Foreign exchange options | 129,084 | 4,689 | (2,028) |
| **Interest/Profit rate related contracts** | | | |
| Swaption | 877,964 | 31,822 | - |
| Interest rate swap | 62,143,123 | 187,436 | (312,870) |
| **Credit derivatives contracts** | 1,155,687 | 3,597 | (3,026) |
| | 109,138,102 | 2,778,605 | (2,819,612) |

Company No. 312552-W

## 33. Financial assets and liabilities (continued)

### 33.4 Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements are as follows:

| **Group and Bank 2017** | **Gross amount recognised in the statements of financial position RM'000** | **Gross amount offset in the statements of financial position RM'000** | **Amount presented in the statements of financial position RM'000** | **Amount not offset in the statements of financial position** Value of financial instruments subject to netting arrangement RM'000 | **Collateral received/ pledged* RM'000** | **Net amount RM'000** |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Derivative financial assets | | | | | | |
| - Foreign exchange related contracts | 1,074,292 | - | 1,074,292 | (465,175) | (1,147,804) | (538,687) |
| - Interest/Profit rate related contracts | 227,892 | - | 227,892 | (109,792) | (271,418) | (153,318) |
| - Credit derivative contracts | 312 | - | 312 | - | (346) | (34) |
| | 1,302,496 | - | 1,302,496 | (574,967) | (1,419,568) | (692,039) |
| Reverse repurchase agreements | 69,042 | - | 69,042 | - | (70,400) | (1,358) |
| | 1,371,538 | - | 1,371,538 | (574,967) | (1,489,968) | (693,397) |
| **Financial liabilities** | | | | | | |
| Derivative financial liabilities | | | | | | |
| - Foreign exchange related contracts | 1,254,318 | - | 1,254,318 | (465,175) | (544,627) | 244,516 |
| - Interest/Profit rate related contracts | 321,990 | - | 321,990 | (109,792) | (652,101) | (439,903) |
| - Credit derivative contracts | 101 | - | 101 | - | (366) | (265) |
| | 1,576,409 | - | 1,576,409 | (574,967) | (1,197,094) | (195,652) |

* Include securities accepted as collateral

# 33. Financial assets and liabilities (continued)

## 33.4 Offsetting of financial assets and financial liabilities (continued)

| Group and Bank 2016 | Gross amount recognised in the statements of financial position RM'000 | Gross amount offset in the statements of financial position RM'000 | Amount presented in the statements of financial position RM'000 | Amount not offset in the statements of financial position: Value of financial instruments subject to netting arrangement RM'000 | Amount not offset in the statements of financial position: Collateral received/ pledged* RM'000 | Net amount RM'000 |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Derivative financial assets | | | | | | |
| - Foreign exchange related contracts | 2,555,750 | - | 2,555,750 | (925,036) | (1,165,295) | 465,419 |
| - Interest/Profit rate related contracts | 219,258 | - | 219,258 | (113,346) | (76,494) | 29,418 |
| - Credit derivative contracts | 3,597 | - | 3,597 | (2,420) | (1,177) | - |
| | 2,778,605 | - | 2,778,605 | (1,040,802) | (1,242,966) | 494,837 |
| Reverse repurchase agreements | 608,641 | - | 608,641 | - | (613,960) | (5,319) |
| | 3,387,246 | - | 3,387,246 | (1,040,802) | (1,856,926) | 489,518 |
| **Financial liabilities** | | | | | | |
| Derivative financial liabilities | | | | | | |
| - Foreign exchange related contracts | 2,503,716 | - | 2,503,716 | (925,036) | (914,321) | 664,359 |
| - Interest/Profit rate related contracts | 312,870 | - | 312,870 | (113,346) | (117,844) | 81,680 |
| - Credit derivative contracts | 3,026 | - | 3,026 | (2,420) | (409) | 197 |
| | 2,819,612 | - | 2,819,612 | (1,040,802) | (1,032,574) | 746,236 |

* Include securities accepted as collateral

## 33. Financial assets and liabilities (continued)

### 33.4 Offsetting of financial assets and financial liabilities (continued)

Financial assets and financial liabilities are offset and the net amount is reported in the statements 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 realise the asset and settle the liability simultaneously.

Derivatives and reverse repurchase agreements included in the amount not set-off in the statements of financial position relate to transactions where:

(i) the counterparty has an offsetting exposure with the Group and the Bank and a master netting or similar arrangements is in place with a right to set-off only in the event of default, insolvency or bankruptcy; and

(ii) cash and securities are received or cash pledged in respect of the transaction described above.

## 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 DB 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 Global Share Purchase Plan***

The DB Group offers a broad-based employee share ownership plan entitled Global Share Purchase Plan ("GSPP"). The GSPP offers all active employees at participating Deutsche Bank entities the opportunity to purchase Deutsche Bank shares in monthly instalments over one year. At the end of the purchase cycle, the Bank matches the acquired stock in a ratio of one to one up to a maximum of ten free shares, provided that the employee remains at Deutsche Bank Group for another year. In total, about 14,500 staff from 20 countries enrolled in the ninth cycles that began in November 2017.

***DB Equity Plan***

The DB Group made grants of share-based compensation under the DB Equity Plan. This plan represents a contingent right to receive Deutsche Bank common shares after a specified period of time. The award recipient is not entitled to receive dividends during the vesting period of the award.

The share awards granted under the terms and conditions of DB Equity Plan may be forfeited fully or partly if the recipient voluntarily terminates employment before the end of the relevant vesting period. Vesting usually continues after termination of employment in cases such as redundancy or retirement.

In countries where legal or other restrictions hinder the delivery of shares, a cash plan variant of the DB Equity Plan was used for granting awards.

During the year, RM1,413,236 (2016: RM1,329,251) of expense was recognised in profit or loss.

# 34. Equity compensation benefits (continued)

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

| **Group and Bank** | **2017 Number of deferred share rights** | **2016 Number of deferred share rights** |
|---|---|---|
| Outstanding at 1 January | 46,715 | 38,212 |
| Granted during the year | 65,876 | 31,234 |
| Vested to employees during the year | (33,816) | (20,538) |
| Forfeited/Lapsed during the year | - | (2,193) |
| Outstanding at 31 December | 78,775 | 46,715 |

| | **2017 €'000** | **2016 €'000** |
|---|---|---|
| Grant value of share awards outstanding at 31 December | 917 | 942 |
| Grant value of share awards issued to the Scheme in the year | 689 | 486 |
| Grant value of share awards vested to Employees in the year | 714 | 680 |

Company No. 312552-W

## 35. The operations of Islamic Banking

### Statement of financial position as at 31 December 2017

| **Assets** | **Note** | **2017 RM'000** | **2016 RM'000** |
|---|---|---|---|
| Cash and short-term funds | (a) | 115,686 | 67,160 |
| Other assets | | 28 | 10 |
| **Total assets** | | 115,714 | 67,170 |
| **Liabilities and Islamic Banking funds** | | | |
| Deposits from customers | (b) | 68,590 | 32,764 |
| Other liabilities | (c) | 11,429 | 1,327 |
| Taxation | | 2,579 | 1,951 |
| **Total liabilities** | | 82,598 | 36,042 |
| Capital funds | | 25,000 | 25,000 |
| Retained profits | | 8,116 | 6,128 |
| Islamic Banking funds | | 33,116 | 31,128 |
| **Total liabilities and Islamic Banking funds** | | 115,714 | 67,170 |
| Commitments and contingencies | | - | - |

The notes on pages 93 to 95 are an integral part of these financial statements.

Company No. 312552-W

## 35. The operations of Islamic Banking (continued)

### Statement of profit or loss and other comprehensive income for the year ended 31 December 2017

| | 2017 RM'000 | 2016 RM'000 |
|---|---|---|
| Income derived from investment of Islamic funds | 2,854 | 619 |
| Total net income | 2,854 | 619 |
| Other operating expenses | (238) | (80) |
| Profit before tax | 2,616 | 539 |
| Taxation | (628) | (129) |
| Net profit and total comprehensive income for the year | 1,988 | 410 |

### Statement of changes in Islamic Banking funds for the year ended 31 December 2017

| | Capital funds RM'000 | Retained profits RM'000 | Total RM'000 |
|---|---|---|---|
| **At 1 January 2016** | 25,000 | 5,718 | 30,718 |
| Net profit/total comprehensive income for the year | - | 410 | 410 |
| **At 31 December 2016/1 January 2017** | 25,000 | 6,128 | 31,128 |
| Net profit/total comprehensive income for the year | - | 1,988 | 1,988 |
| **At 31 December 2017** | 25,000 | 8,116 | 33,116 |

The Bank transferred RM25,000,000 paid-up capital funds to the Islamic Banking window on 20 April 2009.

## 35. The operations of Islamic Banking (continued)

### Statement of cash flows for the year ended 31 December 2017

| | 2017 RM'000 | 2016 RM'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit before tax | 2,616 | 539 |
| **Operating profit before working capital changes** | 2,616 | 539 |
| (Increase)/Decrease in operating assets | (18) | 51,516 |
| Increase/(Decrease) in operating liabilities | 45,928 | (52,818) |
| **Cash generated from/(used in) operations** | 48,526 | (763) |
| **Net cash generated from/(used in) operations** | 48,526 | (763) |
| **Net increase/(decrease) in cash and cash equivalents** | 48,526 | (763) |
| Cash and cash equivalents at 1 January | 67,160 | 67,923 |
| **Cash and cash equivalents at 31 December** (Note 35(a)) | 115,686 | 67,160 |

The notes on pages 93 to 95 are an integral part of these financial statements.

## 35. 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 (Now repealed and replaced by the Financial Services Act, 2013).

**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.

During the financial year ended 31 December 2017, a total of 4 meetings were held. The Shariah Committee comprises the following members and the details of attendance of each member was as follows:

| **Members** | **Number of Shariah Meetings Attended** |
|---|---|
| Dr Sheikh Hussein Hamed Sayed Hassan | 4/4 |
| Dr Muhammad Qaseem | 4/4 |
| En. Mohd Hilmi bin Ramli | 4/4 |

**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 Notes 1 and 2 to the financial statements of the Group and of the Bank and have been prepared on the historical cost basis, except as mentioned in the respective accounting policy notes.

**(a) Cash and short-term funds**

| | **2017 RM'000** | **2016 RM'000** |
|---|---|---|
| Cash and balances with banks and other financial institutions | 115,686 | 67,160 |

# 35. The operations of Islamic Banking (continued)

## (b) Deposits from customers

| | 2017 RM'000 | 2016 RM'000 |
|---|---|---|
| **Non-Mudharabah** | | |
| Demand deposits | 68,590 | 32,764 |

## (c) Other liabilities

| | 2017 RM'000 | 2016 RM'000 |
|---|---|---|
| Bills payable | 166 | 121 |
| Other liabilities | 11,263 | 1,206 |
| | 11,429 | 1,327 |

## (d) 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.

# 35. The operations of Islamic Banking (continued)

## (d) Capital adequacy (continued)

Components of Tier I and Tier II capital:

| | 2017 RM'000 | 2016 RM'000 |
|---|---|---|
| Tier 1 capital | | |
| Capital funds | 25,000 | 25,000 |
| Retained profits | 8,116 | 6,128 |
| Total common equity tier 1/Total tier 1 capital | 33,116 | 31,128 |
| Total Tier 2 capital | - | - |
| Capital base | 33,116 | 31,128 |
| Common equity tier 1/Tier 1 capital ratio | 585.865% | 791.910% |
| Total capital ratio | 585.865% | 791.910% |

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

| | RISK TYPE | Risk Weighted Assets 2017 RM'000 | Risk Weighted Assets 2016 RM'000 |
|---|---|---|---|
| 1 | Credit risk | 843 | 689 |
| 2 | Market risk | 1,687 | 1,376 |
| 3 | Operational risk | 3,123 | 1,866 |
| **Total** | | 5,653 | 3,931 |