

Deutsche Bank (Malaysia) Berhad

Company No. 312552-W

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

**Financial statements for the year
ended 31 December 2013**



Deutsche Bank (Malaysia) Berhad

(Company No. 312552-W)

(Incorporated in Malaysia)

and its subsidiaries

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

In the opinion of the Directors, the financial statements set out on pages 12 to 89 are properly drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the Companies Act, 1965 in Malaysia as to give a true and fair view of the financial position of the Group and of the Bank as of 31 December 2013 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:



.....
Tun Mohamed Dzaidin bin Haji Abdullah



.....
Dato Yusof Annuar bin Yaacob

Kuala Lumpur

Date: 30 MAY 2014

Deutsche Bank (Malaysia) Berhad

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

and its subsidiaries

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

I, Liew Yeh Yin, being the officer primarily responsible for the financial management of Deutsche Bank (Malaysia) Berhad, do solemnly and sincerely declare that the financial statements set out on pages 12 to 89 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the above named in Kuala Lumpur on

30 MAY 2014



.....
Liew Yeh Yin

Before me:



149, Jalan Aminuddin Baki
Taman Tun Dr Ismail
60000 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 2013. 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 which included examining, on a test basis, each type of transaction, the relevant documentation and procedures adopted by Deutsche Bank (Malaysia) Berhad's Islamic Banking division.

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 2013 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 2013 have been conducted in conformity with the Shariah principles.



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



.....
Dr Muhammad Qaseem
(Member)



.....
Encik Lokmanulhakim bin Hussain
(Member)
(Resigned on 31 December 2013)

KPMG (Firm No. AF 0758)
Chartered Accountants
Level 10, KPMG Tower
8, First Avenue, Bandar Utama
47800 Petaling Jaya
Selangor Darul Ehsan, Malaysia

Telephone +60 (3) 7721 3388
Fax +60 (3) 7721 3399
Internet www.kpmg.com.my

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

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

Report on the Financial Statements

We have audited the financial statements of Deutsche Bank (Malaysia) Berhad, which comprise the statements of financial position as at 31 December 2013 of the Group and of the Bank, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows of the Group and of the Bank for the financial year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 12 to 89.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Company No. 312552-W

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Bank as of 31 December 2013 and of their financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and requirements of the Companies Act, 1965 in Malaysia.

Report on Other Legal and Regulatory Requirements

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

- a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Bank and its subsidiary companies have been properly kept in accordance with the provisions of the Act.
- b) We are satisfied that the accounts of the subsidiary companies that have been consolidated with the Bank's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.
- c) The audit reports on the accounts of the subsidiary companies did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

Other Matters

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

KPMG
Firm Number: AF 0758
Chartered Accountants

Petaling Jaya, Selangor

Date: **30 MAY 2014**

Khaw Hock Hoe
Approval Number: 2229/04/16(J)
Chartered Accountant

Deutsche Bank (Malaysia) Berhad

(Company No. 312552-W)

(Incorporated in Malaysia)

and its subsidiaries

Statements of financial position as at 31 December 2013

	Note	Group		Bank	
		2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Assets					
Cash and short-term funds	3	2,496,327	3,429,964	2,496,327	3,429,964
Securities purchased under resale agreements		3,015,904	2,748,825	3,015,904	2,748,825
Financial assets held-for-trading	4	2,853,972	2,441,283	2,853,972	2,441,283
Financial investments available-for-sale	5	1,591	1,591	1,591	1,591
Loans, advances and financing	6	2,004,478	703,888	2,004,478	703,888
Other assets	7	2,040,137	1,338,580	2,040,137	1,338,580
Tax recoverable		27,188	32,999	27,188	32,999
Statutory deposit with Bank Negara Malaysia	8	6,000	4,000	6,000	4,000
Investments in subsidiary companies	9	-	-	20	20
Plant and equipment	10	2,766	3,502	2,766	3,502
Deferred tax assets	11	22,644	20,987	22,644	20,987
Total assets		12,471,007	10,725,619	12,471,027	10,725,639
Liabilities and shareholders' funds					
Deposits from customers	12	4,748,311	6,038,320	4,748,331	6,038,340
Deposits and placements of banks and other financial institutions	13	1,538,371	337,533	1,538,371	337,533
Obligations on securities sold under repurchase agreements		2,089,672	936,689	2,089,672	936,689
Other liabilities	14	2,522,919	1,958,410	2,522,919	1,958,410
Taxation		-	-	-	-
Total liabilities		10,899,273	9,270,952	10,899,293	9,270,972

The notes on pages 19 to 89 are an integral part of these financial statements.

Statements of financial position as at 31 December 2013 (continued)

	Note	Group		Bank	
		2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Equity					
Share capital	15	173,599	173,599	173,599	173,599
Reserves	16	1,398,135	1,281,068	1,398,135	1,281,068
Total equity attributable to owner of the Bank		<u>1,571,734</u>	<u>1,454,667</u>	<u>1,571,734</u>	<u>1,454,667</u>
Total liabilities and equity		<u>12,471,007</u>	<u>10,725,619</u>	<u>12,471,027</u>	<u>10,725,639</u>
				Group and Bank	
				2013	
				2012	
				RM'000	
				RM'000	
Commitments and contingencies	29			<u>141,760,260</u>	<u>136,983,789</u>

The notes on pages 19 to 89 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 2013

		Group and Bank	
		2013	2012
	Note	RM'000	RM'000
Interest income	17	237,813	240,959
Interest expense	18	<u>(90,949)</u>	<u>(104,274)</u>
Net interest income		146,864	136,685
Net income from Islamic Banking Operations	34	575	2,481
Non-interest income	19	<u>132,970</u>	<u>57,100</u>
Operating income		280,409	196,266
Other operating expenses	20	<u>(124,421)</u>	<u>(116,312)</u>
Operating profit		155,988	79,954
Allowance (made)/written back for impairment on loans, advances and financing	21	<u>(1,711)</u>	<u>1,476</u>
Profit before tax		154,277	81,430
Tax expense	24	<u>(37,210)</u>	<u>(22,678)</u>
Profit for the year		<u>117,067</u>	<u>58,752</u>
Other comprehensive loss, net of tax			
Fair value changes on financial investments available-for-sale		-	<u>(2,833)</u>
Total other comprehensive loss, net of tax		-	<u>(2,833)</u>
Total comprehensive income for the year		<u>117,067</u>	<u>55,919</u>
Earnings per share (sen)	25	<u>67.4</u>	<u>33.8</u>

The notes on pages 19 to 89 are an integral part of these financial statements.

Deutsche Bank (Malaysia) Berhad

(Company No. 312552-W)

(Incorporated in Malaysia)

and its subsidiaries

Statement of changes in equity for the year ended 31 December 2013

Group and Bank	< ----- Attributable to owner of the Bank ----- >					
	< ----- Non-distributable ----- >			Distributable		
	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 2012	173,599	357,763	177,555	689,831	1,225,149	1,398,748
Fair value changes on financial investments available-for-sale	-	-	(2,833)	-	(2,833)	(2,833)
Total other comprehensive loss for the year	-	-	(2,833)	-	(2,833)	(2,833)
Profit for the year	-	-	-	58,752	58,752	58,752
Total comprehensive (loss)/income for the year	-	-	(2,833)	58,752	55,919	55,919
At 31 December 2012	173,599	357,763	174,722	748,583	1,281,068	1,454,667
	Note 15	Note 16	Note 16	Note 16		

The notes on pages 19 to 89 are an integral part of these financial statements.

Company No. 312552-W

Statement of changes in equity for the year ended 31 December 2013 (continued)

Group and Bank	< ----- Attributable to owner of the Bank ----- >					
	<----- Non-distributable ----->			Distributable		
	Share capital RM'000	Share premium RM'000	Other reserves RM'000	Retained earnings RM'000	Total reserves RM'000	Total RM'000
At 31 December 2012/1 January 2013	173,599	357,763	174,722	748,583	1,281,068	1,454,667
Profit/Total comprehensive income for the year	-	-	-	117,067	117,067	117,067
Transfer to regulatory reserves	-	-	13,558	(13,558)	-	-
At 31 December 2013	173,599	357,763	188,280	852,092	1,398,135	1,571,734
	Note 15	Note 16	Note 16	Note 16		

The notes on pages 19 to 89 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 2013

	Group and Bank	
	2013	2012
	RM'000	RM'000
Cash flows from operating activities		
Profit before tax	154,277	81,430
Adjustments for:		
Depreciation of plant and equipment	1,314	1,474
Net gain on disposal of plant and equipment	-	(95)
Gain on disposal of financial investments available-for-sale	-	(4,346)
Allowance for impairment on loans, advances and financing	1,711	(1,476)
Net unrealised gains on revaluation of trading portfolio (including derivatives)	(78,046)	(27,860)
Unrealised losses from foreign exchange translations	110,427	76,347
Operating profit before changes in operating assets	189,683	125,474
(Increase)/Decrease in operating assets		
Securities purchased under resale agreements	(267,079)	660,639
Financial assets held-for-trading	(412,689)	(1,501,576)
Loans, advances and financing	(1,302,301)	133,553
Other assets	(2,406,213)	(453,895)
Statutory deposit with Bank Negara Malaysia	(2,000)	(2,000)
Increase/(Decrease) in operating liabilities		
Deposits from customers	(1,290,009)	66,879
Deposits and placements of banks and other financial institutions	1,200,838	(1,603,468)
Obligations on securities sold under repurchase agreements	1,152,983	936,689
Other liabilities	2,236,784	607,901
Cash used in operations	(900,003)	(1,029,804)
Net income taxes paid	(33,056)	(23,403)
Net cash used in operating activities	(933,059)	(1,053,207)

The notes on pages 19 to 89 are an integral part of these financial statements.

Statements of cash flows for the year ended 31 December 2013 (continued)

	Group and Bank	
	2013	2012
	RM'000	RM'000
Cash flows from investing activities		
Purchase of plant and equipment	(578)	(1,703)
Proceeds from disposal of plant and equipment	-	391
Proceeds from disposal of financial investments available-for-sale	-	6,143
	<hr/>	<hr/>
Net cash (used in)/generated from investing activities	(578)	4,831
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(933,637)	(1,048,376)
Cash and cash equivalents at 1 January	3,429,964	4,478,340
	<hr/>	<hr/>
Cash and cash equivalents at 31 December (Note 3)	2,496,327	3,429,964
	<hr/>	<hr/>

The notes on pages 19 to 89 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 2013 comprise the Bank and its subsidiaries (together referred to as the “Group”).

The Group is principally engaged in all aspect of banking and related financial services that also include Islamic Banking business, whilst the principal activities of the subsidiaries are stated at Note 9 to the financial statements. There have been no significant changes to these principal activities during the financial year.

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

The financial statements were approved and authorised for issue by the Board of Directors on **30 MAY 2014**.....

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 Companies Act, 1965 in Malaysia.

Pursuant to paragraph 13 of 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 loan/financing, net of individual impairment provision, before 31 December 2015. The Bank had complied with the BNM’s directive as at 31 December 2013.

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

The following are accounting standards, amendments and interpretations of the MFRS framework 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 2014

- Amendments to MFRS 10, *Consolidated Financial Statements: Investment Entities*
- Amendments to MFRS 12, *Disclosure of Interests in Other Entities: Investment Entities*
- Amendments to MFRS 127, *Separate Financial Statements (2011): Investment Entities*
- Amendments to MFRS 132, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*
- Amendments to MFRS 136, *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets*
- Amendments to MFRS 139, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting*
- IC interpretation 21, *Levies*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 July 2014

- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2011-2013 Cycle)*
- Amendments to MFRS 2, *Share-based Payment (Annual Improvements 2010-2012 Cycle)*
- Amendments to MFRS 3, *Business Combinations (Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle)*
- Amendments to MFRS 8, *Operating Segments (Annual Improvements 2010-2012 Cycle)*
- Amendments to MFRS 13, *Fair Value Measurement (Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle)*
- Amendments to MFRS 116, *Property, Plant and Equipment (Annual Improvements 2010-2012 Cycle)*
- Amendments to MFRS 119, *Employee Benefits - Defined Benefit Plans: Employee Contributions*
- Amendments to MFRS 124, *Related Party Disclosures (Annual Improvements 2010-2012 Cycle)*
- Amendments to MFRS 138, *Intangible Assets (Annual Improvements 2010-2012 Cycle)*
- Amendments to MFRS 140, *Investment Property (Annual Improvements 2011-2013 Cycle)*

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

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

- MFRS 9, *Financial Instruments* (2009)
- MFRS 9, *Financial Instruments* (2010)
- MFRS 9, *Financial Instruments - Hedge Accounting and Amendments to MFRS 9, MFRS 7 and MFRS 139*
- Amendments to MFRS 7, *Financial Instruments: Disclosures - Mandatory Effective Date of MFRS 9 and Transition Disclosures*

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

- from the annual period beginning on 1 January 2014 for those standards, amendments or interpretations that are effective for the annual period beginning on or after 1 January 2014, except for IC Interpretation 21 which is not applicable to the Group and the Bank.
- from the annual period beginning on 1 January 2015 for those standards, amendments or interpretations that are effective for the annual period beginning on or after 1 July 2014, except for Amendments to MFRS3, Amendments to MFRS 8 and Amendments to MFRS 138 which are not applicable to the Group and the Bank.

The Group and the Bank is still assessing the impact of the adoption of MFRS 9. Other than this, the initial application of the standards, amendments and interpretations is not expected to have any material financial impact to the current and prior periods financial statements upon their first adoption.

(b) Basis of measurement

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

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

1. Basis of preparation (continued)

(c) 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.

(d) 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 32.

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.

2. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(i) Subsidiaries (continued)

The Group adopted MFRS 10, *Consolidated Financial Statements* in the current financial year. This resulted in changes to the following policies:

- Control exists when the Group 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. In the previous financial years, control exists when the Group has the ability to exercise its power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.
- Potential voting rights are considered when assessing control only when such rights are substantive. In the previous financial years, potential voting rights are considered when assessing control when such rights are presently exercisable.
- The Group 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. In the previous financial years, the Group did not consider *de facto* power in its assessment of control.

The change in accounting policy has been made retrospectively and in accordance with the transitional provision of MFRS 10. The adoption of MFRS 10 has no significant impact to the financial statements of the Group.

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

The accounting policies of the subsidiaries are changed when necessary to align them with the policies adopted by the Bank.

(ii) Transactions eliminated on consolidation

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

2. Significant accounting policies (continued)

(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).

(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.

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

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

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

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.

(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.

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

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

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

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.

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.

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

(iii) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

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

From 1 January 2013, the Group adopted MFRS 13, *Fair Value Measurement* which prescribed that 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.

In accordance with the transitional provision of MFRS 13, the Group applied the new fair value measurement guidance prospectively, and has not provided any comparative fair value information for new disclosures. The adoption of MFRS 13 has not significantly affected the measurements of the Group's assets or liabilities other than the additional disclosures.

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.

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

(vi) Determination of fair value (continued)

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 judgment.

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

(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.

2. Significant accounting policies (continued)

(d) Impairment

(i) Financial assets

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

In respect of loans, 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.

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 statement of comprehensive income. Where appropriate, the calculation of the present value of estimated future cash flows of a collateralised loan reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

2. Significant accounting policies (continued)

(d) Impairment (continued)

(i) Financial assets (continued)

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 or 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.

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.

2. Significant accounting policies (continued)

(d) Impairment (continued)

(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.

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.

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.

2. Significant accounting policies (continued)

(e) Resale and repurchase agreements

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

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

(f) Plant and equipment

(i) Recognition and measurement

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

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.

2. Significant accounting policies (continued)

(f) Plant and equipment (continued)

(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 part 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 end of the reporting period.

(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 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.

2. Significant accounting policies (continued)

(g) Income tax (continued)

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.

(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.

2. Significant accounting policies (continued)

(j) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities 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 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.

(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 as an integral part of the total lease expense, over the term of the lease.

2. Significant accounting policies (continued)

(m) Provisions

A provision is recognised if, as a result of a past event, the Group and the Bank have a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

3. Cash and short-term funds

	Group and Bank	
	2013	2012
	RM'000	RM'000
Cash and balances with banks and other financial institutions	337,311	568,912
Money at call and deposit placements maturing within one month	<u>2,159,016</u>	<u>2,861,052</u>
	<u>2,496,327</u>	<u>3,429,964</u>

4. Financial assets held-for-trading

	Group and Bank	
	2013	2012
	RM'000	RM'000
At fair value		
Malaysian Government Securities	575,054	637,883
Malaysian Investment Issue	182,722	186,161
Bank Negara Malaysia Bills	1,466,387	1,098,157
Treasury Bills	29,705	-
Cagamas bonds	11,298	9,463
Negotiable instruments of deposit	449,959	180,007
Private debt securities	<u>138,847</u>	<u>329,612</u>
	<u>2,853,972</u>	<u>2,441,283</u>

5. Financial investments available-for-sale

	Group and Bank	
	2013 RM'000	2012 RM'000
At cost		
Unquoted securities	<u>1,591</u>	<u>1,591</u>

6. Loans, advances and financing

	Group and Bank	
	2013 RM'000	2012 RM'000
At amortised cost		
Overdrafts	105,006	115,943
Term loans - housing loans	24,209	27,223
- other term loans	55,304	55,765
Bills receivable	983,353	41,906
Claims on customers under acceptance credits	850,818	471,180
Staff loans	3,999	3,869
	<u>2,022,689</u>	<u>715,886</u>
Unearned interest	(7,185)	(2,851)
Gross loans, advances and financing	<u>2,015,504</u>	<u>713,035</u>
Allowance for impaired loans and financing		
- Collective assessment	(10,623)	(6,961)
- Individual assessment	(403)	(2,186)
Net loans, advances and financing	<u>2,004,478</u>	<u>703,888</u>

6. Loans, advances and financing (continued)

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

	Group and Bank	
	2013 RM'000	2012 RM'000
Maturing within one year	1,947,934	669,885
One year to three years	10,151	1,009
Three years to five years	1,936	13,971
Over five years	55,483	28,170
	<u>2,015,504</u>	<u>713,035</u>

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

	Group and Bank	
	2013 RM'000	2012 RM'000
Domestic banking institutions	1,889	-
Domestic business enterprises - others	1,008,088	645,534
Individuals	28,245	31,125
Foreign entities	977,282	36,376
	<u>2,015,504</u>	<u>713,035</u>

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

	Group and Bank	
	2013 RM'000	2012 RM'000
Fixed rate		
- Other fixed rate loan/financing	3,845	3,869
Variable rate		
- Base lending rate plus	67,969	65,143
- Cost plus	1,940,919	641,263
- Other variable rates	2,771	2,760
	<u>2,015,504</u>	<u>713,035</u>

6. Loans, advances and financing (continued)

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

	Group and Bank	
	2013 RM'000	2012 RM'000
Agriculture, hunting, forestry & fishing	5	-
Manufacturing	230,047	273,996
Electricity, gas and water	4,506	-
Construction	90,845	56,962
Purchase of landed property residential	27,085	30,195
Wholesale & retail trade and restaurants & hotel	261,229	253,124
Finance, insurance and business services	1,395,124	94,475
Purchase of transport vehicles	465	196
Others	6,198	4,087
	<u>2,015,504</u>	<u>713,035</u>

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

	Group and Bank	
	2013 RM'000	2012 RM'000
Malaysia	1,038,221	676,659
China	625,613	1,907
Singapore	180,659	909
Others	171,011	33,560
	<u>2,015,504</u>	<u>713,035</u>

6. Loans, advances and financing (continued)

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

	Group and Bank	
	2013 RM'000	2012 RM'000
At 1 January	8,448	9,867
Classified as impaired during the year	2,082	2,718
Reclassified as non-impaired during the year	(1,613)	(1,507)
Amounts recovered	<u>(4,303)</u>	<u>(2,630)</u>
At 31 December	<u>4,614</u>	<u>8,448</u>
Gross impaired loans as a percentage of gross loans, advances and financing	<u>0.23%</u>	<u>1.18%</u>

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

6.6.1 Collective assessment allowance

	Group and Bank	
	2013 RM'000	2012 RM'000
At 1 January	6,961	7,771
Allowance made/(reversed) during the year	<u>3,662</u>	<u>(810)</u>
At 31 December	<u>10,623</u>	<u>6,961</u>
As a percentage of gross loans, advances and financing less individual impairment provision	<u>0.53%</u>	<u>0.98%</u>

6. Loans, advances and financing (continued)

6.6.2 Individual impairment assessment

	Group and Bank	
	2013	2012
	RM'000	RM'000
At 1 January	2,186	2,753
Allowance made during the year	328	395
Amount recovered	(2,111)	(962)
At 31 December	<u>403</u>	<u>2,186</u>

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

	Group and Bank	
	2013	2012
	RM'000	RM'000
Manufacturing	-	3,209
Purchase of landed properties - residential	4,567	5,196
Others	47	43
	<u>4,614</u>	<u>8,448</u>

7. Other assets

	Group and Bank	
	2013	2012
	RM'000	RM'000
Interest/Income receivable	16,166	22,838
Margin placed with exchange	1,482	1,204
Derivatives (Note 32.4)	1,500,727	1,031,755
Other debtors, deposits and prepayments	521,762	282,783
	<u>2,040,137</u>	<u>1,338,580</u>

8. 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) of the Central Bank of Malaysia Act, 2009, the amount of which is determined as a set percentage of total eligible liabilities.

9. Investments in subsidiary companies

	Bank	
	2013 RM'000	2012 RM'000
Unquoted shares, at cost	<u>20</u>	<u>20</u>

Details of the subsidiaries are as follows:-

Name	Principal activities	Effective ownership interest	
		2013	2012
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.

10. 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 2012	10,441	4,617	13,219	3,651	445	32,373
Additions	574	386	249	27	467	1,703
Disposals	-	(15)	-	-	(445)	(460)
At 31 December 2012/ 1 January 2013	11,015	4,988	13,468	3,678	467	33,616
Additions	-	203	334	41	-	578
At 31 December 2013	11,015	5,191	13,802	3,719	467	34,194
Accumulated depreciation						
At 1 January 2012	9,813	3,782	11,967	3,109	133	28,804
Charge for the year	361	374	551	95	93	1,474
Disposals	-	(15)	-	-	(149)	(164)
At 31 December 2012/ 1 January 2013	10,174	4,141	12,518	3,204	77	30,114
Charge for the year	485	222	422	92	93	1,314
At 31 December 2013	10,659	4,363	12,940	3,296	170	31,428
Carrying amounts						
At 1 January 2012	628	835	1,252	542	312	3,569
At 31 December 2012/ 1 January 2013	841	847	950	474	390	3,502
At 31 December 2013	356	828	862	423	297	2,766

11. Deferred tax assets

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

	Group and Bank	
	2013 RM'000	2012 RM'000
Recognised in profit or loss		
Plant and equipment - capital allowances	(194)	(205)
Collective impairment assessment for loans	2,656	1,740
Others	20,182	19,452
	<u>22,644</u>	<u>20,987</u>

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

	Group and Bank	
	2013 RM'000	2012 RM'000
At 1 January	20,987	16,520
Origination and reversal of temporary differences		
- recognised in profit or loss	1,657	3,523
- recognised in other comprehensive income	-	944
At 31 December	<u>22,644</u>	<u>20,987</u>

12. Deposits from customers

	Group		Bank	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Demand deposits	2,574,926	2,136,141	2,574,946	2,136,161
Savings deposits	3,824	6,317	3,824	6,317
Fixed deposits	270,962	362,066	270,962	362,066
Other deposits	1,898,599	3,533,796	1,898,599	3,533,796
	<u>4,748,311</u>	<u>6,038,320</u>	<u>4,748,331</u>	<u>6,038,340</u>

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

	Group and Bank	
	2013 RM'000	2012 RM'000
Due within six months	1,486,539	1,934,077
More than six months to one year	90,792	1,098,202
More than one year to three years	550,650	469,424
More than three years to five years	-	219,211
More than five years	41,580	174,948
	<u>2,169,561</u>	<u>3,895,862</u>

12.2 The deposits are sourced from the following types of customers:

	Group		Bank	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Business enterprises	3,058,136	3,177,505	3,058,156	3,177,525
Individuals	39,779	39,248	39,779	39,248
Foreign customers	306,299	231,200	306,299	231,200
Others	1,344,097	2,590,367	1,344,097	2,590,367
	<u>4,748,311</u>	<u>6,038,320</u>	<u>4,748,331</u>	<u>6,038,340</u>

13. Deposits and placements of banks and other financial institutions

	Group and Bank	
	2013 RM'000	2012 RM'000
Other financial institutions	<u>1,538,371</u>	<u>337,533</u>

14. Other liabilities

	Group and Bank	
	2013 RM'000	2012 RM'000
Interest payable	5,224	2,802
Bills payable	161,718	183,815
Derivatives (Note 32.4)	1,736,015	1,278,111
Employee benefits	28,414	27,044
Other liabilities	<u>591,548</u>	<u>466,638</u>
	<u>2,522,919</u>	<u>1,958,410</u>

15. Share capital

	Group and Bank			
	Number of shares		Amount	
	2013 '000	2012 '000	2013 RM'000	2012 RM'000
Authorised:				
Ordinary shares of RM1 each	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>
Issued and fully paid:				
Ordinary shares of RM1 each	<u>173,599</u>	<u>173,599</u>	<u>173,599</u>	<u>173,599</u>

16. Reserves

	Group and Bank	
	2013	2012
	RM'000	RM'000
Non-distributable:		
Share premium	357,763	357,763
Statutory reserve	174,722	174,722
Regulatory reserve	13,558	-
	188,280	174,722
Distributable:		
Retained profits	852,092	748,583
	<u>1,398,135</u>	<u>1,281,068</u>

The statutory reserve is maintained in compliance with Section 12 of the Financial Services Act, 2013 and is not distributable as cash dividends.

The regulatory reserve is maintained to comply with Bank Negara Malaysia's directive dated 4 February 2014 in 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.

Subject to agreement by the Inland Revenue Board, the Bank has tax exempt income to frank approximately RM5,541,000 of its retained profits as at 31 December 2013 if paid out as dividend.

17. Interest income

	Group and Bank	
	2013	2012
	RM'000	RM'000
Loans and advances		
- Interest income other than recoveries from impaired loans	36,820	34,107
Money at call and deposit placements with financial institutions	20,764	29,920
Securities purchased under resale agreements	92,615	109,636
Financial assets held-for-trading	87,614	67,296
	<u>237,813</u>	<u>240,959</u>

18. Interest expense

	Group and Bank	
	2013 RM'000	2012 RM'000
Deposits and placements of banks and other financial institutions	15,154	17,754
Obligations on securities sold under repurchase agreements	22,632	24,173
Deposits from customers	53,163	62,346
Others	-	1
	<u>90,949</u>	<u>104,274</u>

19. Non-interest income

	Group and Bank	
	2013 RM'000	2012 RM'000
Fee income:		
Commissions	11,186	9,433
Service charges and fees	20,270	16,213
Guarantee fees	7,779	8,553
	<u>39,235</u>	<u>34,199</u>
Fee expense:		
Commissions	(3,464)	(2,044)
Service charges and fees	(3,666)	(2,232)
	<u>(7,130)</u>	<u>(4,276)</u>
Net fee income	<u>32,105</u>	<u>29,923</u>
Net gains from financial instruments:		
Net (loss)/gain arising on financial assets held-for-trading:		
Net (loss)/gain from sale	(219)	28,686
Unrealised revaluation loss	(4,397)	(1,753)
Net (loss)/gain arising on trading derivatives:		
Net loss on settlement	(275,140)	(193,037)
Unrealised revaluation gain	82,443	29,337
Net gain/(loss) arising on dealing in foreign exchange:		
Net gain on settlement	398,553	240,650
Unrealised loss from foreign exchange translation	(110,427)	(76,347)
Net gain arising on financial investments available-for-sale:		
Net gain on sale	-	4,346
Gross dividend income	101	164
Other income:		
Gain on disposal of plant and equipment	-	95
Other operating income/(losses), net	9,951	(4,964)
	<u>100,865</u>	<u>27,177</u>
	<u>132,970</u>	<u>57,100</u>

20. Other operating expenses

	Group and Bank	
	2013 RM'000	2012 RM'000
Personnel cost		
- Salaries, allowances and bonuses	48,433	54,085
- Contributions to Employees' Provident Fund	7,722	7,302
- Others	5,540	5,913
Establishment costs		
- Rental	2,511	2,662
- Depreciation	1,314	1,474
- Others	4,224	4,275
Marketing expenses	2,174	2,432
Administration and general expenses		
- Intercompany expenses	42,486	28,578
- Communication	1,476	1,733
- Auditors' remuneration		
- statutory audit fee	128	125
- other services	105	83
- Others	8,308	7,650
	<u>124,421</u>	<u>116,312</u>

The number of employees of the Group and the Bank at the end of the year was 184 (2012: 159).

21. Allowance for impairment on loans, advances and financing

	Group and Bank	
	2013 RM'000	2012 RM'000
Individual assessment allowance		
- made during the year	(328)	(395)
- written back	2,111	962
Collective assessment allowance		
- (made)/reversal during the year	(3,662)	810
Recoveries from bad debts written off	168	99
	<u>(1,711)</u>	<u>1,476</u>

22. Related parties

Identity of related parties

For the purposes of these financial statements, parties are considered to be related to the Bank if 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 Bank has a 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 23.

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

2013	Holding company RM'000	Subsidiary companies RM'000	Other related companies RM'000
<i>Income</i>			
Interest on advances and deposits	2,796	-	-
Other fee income	2,259	-	4,783
Other operating income	4,614	-	5,217
	<u>9,669</u>	<u>-</u>	<u>10,000</u>
<i>Expenditure</i>			
Interest on advances	734	-	22,673
Other fee expenses	1,559	-	1,266
Other operating expenses	40,342	-	2,204
	<u>42,635</u>	<u>-</u>	<u>26,143</u>
<i>Amount due from</i>			
Cash and short-term funds	174,103	-	42,282
Other assets		-	-
- Others	37,500	-	478,123
- Derivatives	302,240	-	-
	<u>513,843</u>	<u>-</u>	<u>520,405</u>

22. Related parties (continued)

2013	Holding company RM'000	Subsidiary companies RM'000	Other related companies RM'000
<i>Amount due to</i>			
Deposits and placements of banks and other financial institutions	1,193,911	20	25,626
Obligations on securities sold under repurchase agreements	-	-	2,089,672
Other liabilities			
- Others	247,654	-	183,510
- Derivatives	221,977	-	-
- Interest payable	198	-	4,267
	<u>1,663,740</u>	<u>20</u>	<u>2,303,075</u>
2012	Holding company RM'000	Subsidiary companies RM'000	Other related companies RM'000
<i>Income</i>			
Interest on advances and deposits	15,779	-	23
Other fee income	2,676	-	3,571
Other operating loss	(7,451)	-	2,388
	<u>11,004</u>	<u>-</u>	<u>5,982</u>
<i>Expenditure</i>			
Interest on advances	4,662	-	24,596
Other fee expenses	1,077	-	219
Other operating expenses	27,556	-	1,559
	<u>33,295</u>	<u>-</u>	<u>26,374</u>
<i>Amount due from</i>			
Cash and short-term funds	3,562,938	-	42,357
Other assets			
- Others	99,429	-	1,628
- Derivatives	443,410	-	-
	<u>4,105,777</u>	<u>-</u>	<u>43,985</u>

22. Related parties (continued)

2012	Holding company RM'000	Subsidiary companies RM'000	Other related companies RM'000
<i>Amount due to</i>			
Deposits and placements of banks and other financial institutions	89,223	20	17,233
Obligations on securities sold under repurchase agreements	-	-	936,689
Other liabilities			
- Others	365,747	-	109,583
- Derivatives	417,924	-	-
- Interest payable	1	-	2,373
	<u>872,895</u>	<u>20</u>	<u>1,065,878</u>

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

Credit transactions and exposures with connected parties

	Group and Bank	
	2013 RM'000	2012 RM'000
Outstanding credit exposures with connected parties	<u>642,363</u>	<u>678,586</u>
Of which:		
Total credit exposure which is non-performing	<u>-</u>	<u>-</u>
Total credit exposures	<u>9,501,945</u>	<u>7,896,879</u>
Percentage of outstanding credit exposures to connected parties		
- as a proportion of total credit exposures	<u>7.08%</u>	<u>8.59%</u>
- as a proportion of capital base	<u>43.18%</u>	<u>47.12%</u>
- which is non-performing	<u>0%</u>	<u>0%</u>

22. Related parties (continued)

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.

23. Key management personnel compensation

The key management personnel compensation are as follows:

	Group and Bank	
	2013	2012
	RM'000	RM'000
Executive Director		
- Salary and other remuneration	1,426	1,871
- Bonuses	1,835	2,181
- Benefits-in-kind	4	5
Non-Executive Directors		
- Fees	814	931
- Other remuneration	129	118
	<u>4,208</u>	<u>5,106</u>
Other key management personnel		
- Short-term employee benefits	7,736	6,486
- Share-based payments	1,400	137
	<u>9,136</u>	<u>6,623</u>

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

Details of the Directors' remuneration are disclosed in the Statement of Corporate Governance.

24. Taxation

	Group and Bank	
	2013	2012
	RM'000	RM'000
Current income tax		
Malaysian - current year	42,000	26,000
- (over)/under provision in prior year	(3,133)	201
	38,867	26,201
Deferred tax expense		
Origination and reversal of temporary differences	(1,451)	(3,661)
Overprovision in prior year	(206)	138
	(1,657)	(3,523)
	<u>37,210</u>	<u>22,678</u>
Reconciliation of effective tax expense		
Profit before taxation	<u>154,277</u>	<u>81,430</u>
Tax at Malaysian tax rate of 25%	38,569	20,357
Non-deductible expenses	657	660
Other items	1,323	1,322
	40,549	22,339
(Over)/Under provision in prior year	(3,339)	339
	<u>37,210</u>	<u>22,678</u>

25. Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 31 December 2013 was based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding, calculated as follows:

	Group and Bank	
	2013	2012
	RM'000	RM'000
Profits attributable to ordinary shareholders	<u>117,067</u>	<u>58,752</u>
Weighted average number of ordinary shares		
- Issued ordinary shares as at 31 December	<u>173,599</u>	<u>173,599</u>

Company No. 312552-W

25. Earnings per share (continued)

	Group and Bank	
	2013 (sen)	2012 (sen)
Basic earnings per share	<u>67.4</u>	<u>33.8</u>

26. Contingent liabilities

In the prior year, there was a litigation in process against the Bank by two companies, seeking specific damages amounting to RM1 million and general damages for which the amount is not quantifiable.

The Bank was awarded a judgement in its favour and the two companies then appealed against the judgement. The appeal was heard in April 2013 and in June 2013. The appeal court allowed the appeal against the Bank with damages to be separately assessed. The Bank has applied for leave to appeal to the Federal Court and the said leave was granted subsequent to the financial year ended.

27. Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	Group and Bank	
	2013 RM'000	2012 RM'000
Less than one year	2,466	2,661
Between one and five years	<u>398</u>	<u>3,048</u>
	<u>2,864</u>	<u>5,709</u>

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

28. Capital adequacy

	Bank	
	2013 RM'000	2012 RM'000
Components of Tier 1 and Tier 2 capital are as follows:-		
Tier 1 capital		
Paid-up share capital	173,599	173,599
Share premium	357,763	357,763
Statutory reserve	174,722	174,722
Retained profits	852,092	748,583
Less: Deferred tax assets	<u>(22,644)</u>	<u>(20,987)</u>
Total common equity tier 1/Total tier 1 capital	1,535,532	1,433,680
Tier 2 capital		
Collective assessment allowance #	7,979	6,312
Regulatory reserve	<u>13,558</u>	<u>-</u>
Total Capital	1,557,069	1,439,992
Less: Investments in subsidiary company	<u>-</u>	<u>(20)</u>
Capital base	<u>1,557,069</u>	<u>1,439,972</u>
Common equity tier 1/Tier 1 capital ratio	14.962%	14.572%
Total capital ratio	<u>15.172%</u>	<u>14.636%</u>

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 on impaired loans restricted from Tier 2 capital of the Bank of RM2,644,000 (2012: RM649,000).

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

RISK TYPE		Risk Weighted Assets	
		2013 RM'000	2012 RM'000
1	Credit risk	5,088,560	3,970,705
2	Market risk	4,772,403	5,447,128
3	Operational risk	402,002	420,593
Total		10,262,965	9,838,426

29. Commitments and contingencies

The off-balance sheet exposures and their related counterparty credit risk of the Group and of the Bank are as follows:

2013 Group and Bank	Principal Amount	Credit Equivalent Amount	Risk Weighted Assets
	RM'000	RM'000	RM'000
Direct Credit Substitutes	-	-	-
Transaction Related Contingent Items	1,371,994	685,997	544,681
Short-Term Self Liquidating Trade Related contingencies	102,261	20,452	18,181
Foreign exchange related contracts			
One year or less	27,511,319	844,805	327,901
Over one year to five years	19,269,118	1,631,374	735,783
Over five years	3,470,145	528,088	180,903
Interest/Profit rate related contracts			
One year or less	22,976,056	52,109	13,828
Over one year to five years	49,798,208	1,395,454	455,849
Over five years	12,184,701	979,894	348,969
Equity related contracts			
One year or less	-	-	-
Over one year to five years	171,005	21,091	10,498
Over five years	-	-	-
Credit Derivative Contracts			
One year or less	-	-	-
Over one year to five years	1,775,755	103,650	25,969
Over five years	-	-	-
OTC Derivative transactions and credit derivative contracts subject to valid bilateral netting agreements	-	-	-
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	51	26	26
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	3,129,647	625,929	591,024
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	141,760,260	6,888,869	3,253,612

Company No. 312552-W

29. 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):

2012 Group and Bank	Principal Amount	Credit Equivalent Amount	Risk Weighted Assets
	RM'000	RM'000	RM'000
Direct Credit Substitutes	-	-	-
Transaction Related Contingent Items	1,405,487	702,743	553,732
Short-Term Self Liquidating Trade Related contingencies	71,405	14,281	11,537
Foreign exchange related contracts			
One year or less	14,272,430	222,531	108,755
Over one year to five years	14,336,298	1,187,330	510,537
Over five years	5,075,046	868,814	360,678
Interest/Profit rate related contracts			
One year or less	25,729,967	79,918	26,236
Over one year to five years	60,462,549	1,831,124	587,114
Over five years	11,973,104	1,100,680	349,787
Equity related contracts			
One year or less	821,382	87,276	43,255
Over one year to five years	277,623	34,092	16,988
Over five years	-	-	-
Credit Derivative Contracts			
One year or less	-	-	-
Over one year to five years	1,147,715	72,369	19,366
Over five years	-	-	-
OTC Derivative transactions and credit derivative contracts subject to valid bilateral netting agreements	-	-	-
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	-	-	-
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	1,410,783	282,157	260,628
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	136,983,789	6,483,315	2,848,613

30. 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 28.

31. Risk management

The Deutsche Bank Group has extensive risk management procedures and policies in place. The identification, monitoring and management of all risks within the Group are integrated into the Group-wide risk management processes in order to optimise the risk mitigating effects of diversification. Risk management procedures and policies are the responsibility of the Group Risk Committee and encompass all types of risk which includes market risk, credit risk, operational risk and liquidity risk. These risks areas are actively managed by dedicated divisions such as the Group Market Risk Management Division, Group Credit Risk/Operational Risk Division and the Group Treasury Division respectively, whom are mainly based in Singapore. 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.

31. Risk management (continued)

31.1 Categories of financial instruments

Financial Assets Group 2013	Carrying amount RM'000	L & R/ (OL) RM'000	FVTPL- HFT RM'000	AFS RM'000
Cash and short-term funds	2,496,327	2,496,327	-	-
Securities purchased under resale agreements	3,015,904	-	3,015,904	-
Financial assets held-for trading	2,853,972	-	2,853,972	-
Financial investments available-for-sale	1,591	-	-	1,591
Loans, advances and financing	2,004,478	2,004,478	-	-
Derivative assets	1,500,727	-	1,500,727	-
Statutory deposit with Bank Negara Malaysia	6,000	6,000	-	-
	<u>11,878,999</u>	<u>4,506,805</u>	<u>7,370,603</u>	<u>1,591</u>
Financial Liabilities Group 2013				
Deposits from customers	4,748,311	4,748,311	-	-
Deposits and placements of banks and other financial institutions	1,538,371	1,538,371	-	-
Obligations on securities sold under repurchase agreements	2,089,672	2,089,672	-	-
Derivative liabilities	1,736,015	-	1,736,015	-
	<u>10,112,369</u>	<u>8,376,354</u>	<u>1,736,015</u>	<u>-</u>

31. Risk management (continued)

31.1 Categories of financial instruments (continued)

Financial Assets	Carrying amount RM'000	L & R/ (OL) RM'000	FVTPL- HFT RM'000	AFS RM'000
Group 2012				
Cash and short-term funds	3,429,964	3,429,964	-	-
Securities purchased under resale agreement	2,748,825	-	2,748,825	-
Financial assets held-for trading	2,441,283	-	2,441,283	-
Financial investments available-for-sale	1,591	-	-	1,591
Loans, advances and financing	703,888	703,888	-	-
Derivative assets	1,031,755	-	1,031,755	-
Statutory deposit with Bank Negara Malaysia	4,000	4,000	-	-
	<u>10,361,306</u>	<u>4,137,852</u>	<u>6,221,863</u>	<u>1,591</u>
Financial Liabilities				
Group 2012				
Deposits from customers	6,038,320	6,038,320	-	-
Deposits and placements of banks and other financial institutions	337,533	337,533	-	-
Obligations on securities sold under repurchase agreements	936,689	936,689	-	-
Derivative liabilities	1,278,111	-	1,278,111	-
	<u>8,590,653</u>	<u>7,312,542</u>	<u>1,278,111</u>	<u>-</u>

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

31. Risk management (continued)

31.2 Financial risks management

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

- Credit risk
- Liquidity risk
- Market risk

Credit risk

Credit risk is the risk of any transactions giving rise to actual, contingent or potential claims against any 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 and credit strategies for the major industries are the principal instruments to determine the Bank's risk appetite. Product or customer specific policies provide the framework for the measurement and management of credit risk. Approval of credit limits and management of exposure takes place within the framework of portfolio guidelines and credit strategies.

Exposure to credit risk, credit quality and collateral

Principal exposures to credit risk in this regard are represented by the carrying amounts of investment and dealing securities, and loans and advances portfolios in the statements of financial position. The credit exposure arising from off balance sheet activities has been disclosed in Note 29 to the financial statements.

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

	Group and Bank	
	2013	2012
	RM'000	RM'000
Impaired	4,614	8,448
Past due but not impaired	11,014	12,589
Neither past due nor impaired	1,999,876	691,998
	<u>2,015,504</u>	<u>713,035</u>

31. Risk management (continued)

31.2 Financial risks management (continued)

Credit risk (continued)

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

(i) Impaired loans

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

- (a) principal or interest or both are past due for three (3) months or more;
- (b) where a loan is in arrears for less than three (3) months, the loan exhibits indications of significant credit weakness; 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.

31. Risk management (continued)

31.2 Financial risks management (continued)

Credit risk (continued)

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

(ii) Past due but not impaired

Past due but not impaired loans are loans where the customer has failed to make a principal or interest payment when contractually due, and includes loans which are due one or more days after the contractual due date but less than three (3) months or 90 days.

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

	2013 RM'000	2012 RM'000
Past due but not impaired		
1 day to < 60 days	7,246	6,707
60 days to < 90 days	<u>3,768</u>	<u>5,882</u>
Carrying amount	<u>11,014</u>	<u>12,589</u>

(iii) Neither past due nor impaired

As at reporting date, the Group and the Bank recorded loans, advances and financing that are neither past due nor impaired of RM1,999,876,000 (2012: RM691,998,000), of which RM1,020,705,000 (2012: RM655,452,000) and RM979,171,000 (2012: RM36,546,000) are loans and advances to customers and loans and advances to banks respectively.

No loan was renegotiated during the year (2012: Nil).

31. Risk management (continued)

31.2 Financial risks management (continued)

Credit risk (continued)

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

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

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

	2013 RM'000	2012 RM'000
Against individually impaired:		
Property	6,413	6,655
Against past due but not impaired:		
Property	22,508	24,092
Against neither past due nor impaired:		
Property	19,395	20,415
	<u>48,316</u>	<u>51,162</u>

31. Risk management (continued)

31.2 Financial risks 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.

	Financial assets held- for-trading RM'000	Financial investments available- for-sale RM'000
2013		
Group and Bank Domestic Rating		
AAA+ to AA-	41,663	100
A+ to A-	2,253,868	-
P1 to P3	548,601	-
Unrated	9,840	1,491
	<u>2,853,972</u>	<u>1,591</u>
	Financial assets held- for-trading RM'000	Financial investments available- for-sale RM'000
2012		
Group and Bank Domestic Rating		
AAA+ to AA-	318,651	100
A+ to A-	1,922,202	-
P1 to P3	180,007	-
Unrated	20,423	1,491
	<u>2,441,283</u>	<u>1,591</u>

(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 RM314,892,272 (2012: RM224,159,452) as at reporting date.

31. Risk management (continued)

31.2 Financial risks management (continued)

Market risk

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

Risk management objectives, policies and processes for managing the risk

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

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

31. Risk management (continued)

31.2 Financial risks management (continued)

Market risk (continued)

A summary of the VaR position of the Bank's portfolios as at 31 December 2013 is as follows:

2013	At 31 December RM'000	Average RM'000	Maximum RM'000	Minimum RM'000
Interest Rate Risk:				
Market Risk	4,024	5,222	8,850	3,297
Specific Risk	495	699	1,277	464
Foreign Exchange Risk	3,292	4,536	15,598	795
Commodity Risk	6	30	357	-
Equity Risk	11	30	144	-
Total VaR	<u>5,702</u>	<u>7,196</u>	<u>18,123</u>	<u>3,907</u>
2012	At 31 December RM'000	Average RM'000	Maximum RM'000	Minimum RM'000
Interest Rate Risk:				
Market Risk	7,125	10,796	15,550	5,089
Specific Risk	1,029	640	1,029	91
Foreign Exchange Risk	3,763	4,773	13,943	861
Commodity Risk	14	17	65	-
Equity Risk	108	203	420	28
Total VaR	<u>8,255</u>	<u>11,480</u>	<u>16,785</u>	<u>5,227</u>

31. Risk management (continued)

31.2 Financial risks management (continued)

Market risk (continued)

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

- (a) The use of historical data may not be a good indicator of potential future events, particularly those that are extreme in nature. The “backward-looking” limitation can cause value-at-risk to understate risk, but can also cause it to be overstated.
- (b) Assumptions concerning the distribution of changes in risk factors, and the correlation between the different risk factors, may not hold true, particularly during market events that are extreme in nature. While the Group believes the assumptions are reasonable, there is no standard value-at-risk methodology to follow. Different assumptions will produce different results.
- (c) The one day holding period does not fully capture the market risk arising during periods of illiquidity, when positions cannot be closed out or hedged within one day.
- (d) Value-at-risk does not indicate the potential loss beyond the 99th quantile.
- (e) Intra-day risk is not captured.
- (f) Although the Group considers the material risks to be covered by value-at-risk model and further enhance it, there still may be risks in the trading book that are not covered by the value-at-risk model.

Liquidity risk

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

Risk management objectives, policies and processes for managing the risk

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

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

Company No. 312552-W

31. Risk management (continued)

31.2 Financial risks 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 2013 and 31 December 2012.

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
2013							
Deposits from customers	3,491,887	427,973	91,255	54,174	90,792	592,230	4,748,311
Deposits and placements of banks and other financial institutions	1,387,545	1,986	148,840	-	-	-	1,538,371
Obligations on securities sold under repurchase agreements	810,556	1,085,580	193,536	-	-	-	2,089,672
Derivative liabilities	40,093	58,860	94,255	224,829	132,416	1,185,562	1,736,015
Other liabilities	766,859	2,702	755	506	234	15,848	786,904
Total Liabilities	6,496,940	1,577,101	528,641	279,509	223,442	1,793,640	10,899,273

Company No. 312552-W

31. Risk management (continued)

31.2 Financial risks management (continued)

Liquidity Risk (continued)

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

Group 2012	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	3,049,145	844,138	94,829	70,424	1,098,308	881,476	6,038,320
Deposits and placements of banks and other financial institutions	334,697	2,836	-	-	-	-	337,533
Obligations on securities sold under repurchase agreements	582,630	354,059	-	-	-	-	936,689
Derivative liabilities	7,764	15,578	36,536	69,411	34,249	1,114,573	1,278,111
Other liabilities	627,707	10,936	11,625	9,432	8,465	12,134	680,299
Total Liabilities	4,601,943	1,227,547	142,990	149,267	1,141,022	2,008,183	9,270,952

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

Company No. 312552-W

31. Risk management (continued)

31.2 Financial risks 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 2013	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	3,492,018	428,175	91,516	54,215	92,432	634,498	4,792,854
Deposits and placements of banks and other financial institutions	1,387,599	1,986	148,921	-	-	-	1,538,506
Obligations on securities sold under repurchase agreements	810,809	1,087,521	194,175	-	-	-	2,092,505
Derivative liabilities	36,875	58,590	82,563	219,007	113,374	1,010,785	1,521,194
Other liabilities	766,859	2,702	755	506	234	15,848	786,904
Total Liabilities	6,494,160	1,578,974	517,930	273,728	206,040	1,661,131	10,731,963

Company No. 312552-W

31. Risk management (continued)

31.2 Financial risks management (continued)

Liquidity Risk (continued)

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

Group 2012	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	3,049,258	844,413	95,115	71,111	1,098,463	966,609	6,124,969
Deposits and placements of banks and other financial institutions	334,730	2,836	-	-	-	-	337,566
Obligations on securities sold under repurchase agreements	582,888	354,368	-	-	-	-	937,256
Derivative liabilities	17,044	22,595	75,090	160,664	145,145	916,830	1,337,368
Other liabilities	627,707	10,936	11,625	9,432	8,465	12,134	680,299
Total Liabilities	4,611,627	1,235,148	181,830	241,207	1,252,073	1,895,573	9,417,458

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

31. Risk management (continued)

31.2 Financial risks management (continued)

Operational risk

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

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

32. Financial assets and liabilities

32.1 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. The following levels of hierarchy are used for determining and disclosing the fair value of those financial instruments:

- Level 1 Quoted market prices: quoted prices (unadjusted) in active markets for identical instruments;
- Level 2 Fair values based on observable inputs: inputs other than quoted prices included within Level 1 that are observable for the instrument, whether directly (i.e. prices) or indirectly (i.e. derived from prices), are used; and
- Level 3 Fair values derived using unobservable inputs: inputs used are not based on observable market data and the unobservable inputs may have a significant impact on the valuation of the financial instruments.

32. Financial assets and liabilities (continued)

32.2 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
2013			
Financial assets			
Financial assets held-for-trading	-	2,853,972	-
Derivative assets	-	1,498,231	2,496
	<u>-</u>	<u>4,352,203</u>	<u>2,496</u>
Financial liabilities			
Derivative liabilities	-	(1,730,283)	(5,732)
	<u>-</u>	<u>(1,730,283)</u>	<u>(5,732)</u>
2012			
Financial assets			
Financial assets held-for-trading	-	2,441,283	-
Derivative assets	-	939,791	91,964
	<u>-</u>	<u>3,381,074</u>	<u>91,964</u>
Financial liabilities			
Derivative liabilities	-	(1,278,013)	(98)
	<u>-</u>	<u>(1,278,013)</u>	<u>(98)</u>

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

	2013 RM'000	2012 RM'000
Financial assets		
Balance at 1 January	91,964	417,692
Total gain recognised in profit or loss <i>(Sales)/Purchases</i>	-	(40,000)
<i>Settlements</i>	(20,000)	-
<i>Attributable to (losses)/gains recognised relating to financial assets that have not been realised</i>	(69,468)	(285,728)
Balance at 31 December	<u>2,496</u>	<u>91,964</u>
Financial liabilities		
Balance at 1 January	(98)	(445)
Total loss recognised in profit or loss <i>Attributable to losses relating to financial liabilities that have not been realised</i>	(5,634)	347
Balance at 31 December	<u>(5,732)</u>	<u>(98)</u>

32. Financial assets and liabilities (continued)

32.2 Financial instruments carried at fair value (continued)

The unrealised gains/(losses) have been recognised in other operating income/expenses in profit or loss as shown in Note 19.

32.3 Financial instruments not carried at fair value

In respect of cash and short term funds, securities purchased under resale agreements, other assets (excluding derivatives), deposits from customers, deposits and placements of banks and other financial institutions, obligations on securities sold under repurchase agreements 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, together with the carrying amounts shown in the statements of financial position, are as follows:

Group	2013		2012	
	Carrying value RM'000	Fair value RM'000	Carrying value RM'000	Fair value RM'000
Financial assets				
Loans, advances and financing	<u>2,004,478</u>	<u>2,005,795</u>	<u>703,888</u>	<u>703,531</u>

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

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

32. Financial assets and liabilities (continued)

32.4 Derivative financial instruments

The following table shows the notional and market values as at 31 December 2013 and 31 December 2012:

	Notional RM'000	Group and Bank 2013	
		Positive Market value RM'000	Negative Market value RM'000
Foreign exchange related contracts			
Forward exchange trades	28,927,989	229,038	(387,925)
Cross currency swaps	20,999,000	768,171	(792,711)
Foreign exchange options	323,593	50,809	(38,027)
Interest/Profit rate related contracts			
Swaption	1,018,310	38,650	-
Interest rate swap	83,940,655	383,621	(505,216)
Equity related contracts	171,005	620	(2,839)
Credit derivatives contracts	1,775,755	29,818	(9,297)
	<u>137,156,307</u>	<u>1,500,727</u>	<u>(1,736,015)</u>
		Group and Bank 2012	
	Notional RM'000	Positive Market value RM'000	Negative Market value RM'000
Foreign exchange related contracts			
- Forward exchange trades	12,915,100	77,090	(104,989)
- Cross currency swaps	18,758,714	340,780	(299,848)
- Foreign exchange options	2,009,960	58,310	(81,523)
Interest/Profit rate related contracts			
- Swaption	659,424	4,634	-
- Interest rate swap	97,506,196	524,262	(772,505)
Equity related contracts	1,099,005	5,498	(5,330)
Credit derivatives contracts	1,147,715	21,181	(13,916)
	<u>134,096,114</u>	<u>1,031,755</u>	<u>(1,278,111)</u>

Company No. 312552-W

32. Financial assets and liabilities (continued)

32.5 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:

	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		Net Amount RM'000
				Values of the Financial Instruments* RM'000	Cash Collateral Received/ Pledged RM'000	
Group and Bank						
31 December 2013						
Financial assets						
Derivative Financial assets						
- Foreign exchange related contracts	1,048,018	-	1,048,018	(491,599)	(318,394)	238,025
- Interest/Profit rate related contracts	422,271	-	422,271	(323,151)	(71,326)	27,794
- Equity related contracts	620	-	620	-	(563)	57
- Credit derivative contracts	29,818	-	29,818	(5,265)	(21,932)	2,621
	<u>1,500,727</u>	<u>-</u>	<u>1,500,727</u>	<u>(820,015)</u>	<u>(412,215)</u>	<u>268,497</u>
Reverse repurchase agreements	3,015,904	-	3,015,904	(3,028,692)	-	(12,788)
	<u>4,516,631</u>	<u>-</u>	<u>4,516,631</u>	<u>(3,848,707)</u>	<u>(412,215)</u>	<u>255,709</u>
Financial liabilities						
Derivative Financial liabilities						
- Foreign exchange related contracts	1,218,663	-	1,218,663	(491,599)	(359,423)	367,641
- Interest/Profit rate related contracts	505,216	-	505,216	(323,151)	(113,269)	68,796
- Equity related contracts	2,839	-	2,839	-	(2,804)	35
- Credit derivative contracts	9,297	-	9,297	(5,265)	(120)	3,912
	<u>1,736,015</u>	<u>-</u>	<u>1,736,015</u>	<u>(820,015)</u>	<u>(475,616)</u>	<u>440,384</u>
Obligation on securities sold under repurchase agreements	2,089,672	-	2,089,672	(2,035,579)	-	54,093
	<u>3,825,687</u>	<u>-</u>	<u>3,825,687</u>	<u>(2,855,595)</u>	<u>(475,616)</u>	<u>494,477</u>

Company No. 312552-W

32. Financial assets and liabilities (continued)

32.5 Offsetting of Financial Assets and Financial Liabilities (continued)

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

Group and Bank 31 December 2012	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		Net Amount RM'000
				Values of the Financial Instruments*	Cash Collateral Received/ Pledged RM'000	
Financial assets						
Derivative Financial assets						
- Foreign exchange related contracts	476,180	-	476,180	(160,354)	(252,108)	63,718
- Interest/Profit rate related contracts	528,896	-	528,896	(272,451)	(198,446)	57,999
- Equity related contracts	5,498	-	5,498	-	(3,479)	2,019
- Credit derivative contracts	21,181	-	21,181	-	(16,367)	4,814
	<u>1,031,755</u>	<u>-</u>	<u>1,031,755</u>	<u>(432,805)</u>	<u>(470,400)</u>	<u>128,550</u>
Reverse repurchase agreements	<u>2,748,825</u>	<u>-</u>	<u>2,748,825</u>	<u>(2,794,941)</u>	<u>-</u>	<u>(46,116)</u>
	<u>3,780,580</u>	<u>-</u>	<u>3,780,580</u>	<u>(3,227,746)</u>	<u>(470,400)</u>	<u>82,434</u>
Financial liabilities						
Derivative Financial liabilities						
- Foreign exchange related contracts	486,360	-	486,360	(160,354)	(186,330)	139,676
- Interest/Profit rate related contracts	772,505	-	772,505	(272,451)	(193,114)	306,940
- Equity related contracts	5,330	-	5,330	-	(2,595)	2,735
- Credit derivative contracts	13,916	-	13,916	-	-	13,916
	<u>1,278,111</u>	<u>-</u>	<u>1,278,111</u>	<u>(432,805)</u>	<u>(382,039)</u>	<u>463,267</u>
Obligation on securities sold under repurchase agreements	<u>936,689</u>	<u>-</u>	<u>936,689</u>	<u>(895,364)</u>	<u>-</u>	<u>41,325</u>
	<u>2,214,800</u>	<u>-</u>	<u>2,214,800</u>	<u>(1,328,169)</u>	<u>(382,039)</u>	<u>504,592</u>

* Include securities accepted as collateral.

32. Financial assets and liabilities (continued)

32.5 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.

33. Equity compensation benefits

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

Share Plans

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

Deutsche Bank Share Scheme

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

33. Equity compensation benefits (continued)

DB Global Share Plan

The 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 installments 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, over 20,000 staff from 31 countries enrolled in the fifth cycle that began in November 2013.

DB Equity Plan

The 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, RM4,214,653 (2012: RM4,712,540) of expense was recognised in the statements of comprehensive income.

33. Equity compensation benefits (continued)

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

Group and Bank

	2013 Number of deferred share rights	2012 Number of deferred share rights
Outstanding at 1 January	56,318	61,878
Granted during the year	44,590	34,560
Vested to employees during the year	(35,606)	(37,618)
Net transferred during the year	-	-
Forfeited/Lapsed during the year	<u>(21,463)</u>	<u>(2,502)</u>
Outstanding at 31 December	<u>43,839</u>	<u>56,318</u>
	2013 €'000	2012 €'000
Grant value of share awards outstanding at 31 December	<u>1,579</u>	<u>2,183</u>
Grant value of share awards issued to the Scheme in the year	<u>1,602</u>	<u>1,123</u>
Grant value of share awards vested to employees in the year	<u>1,421</u>	<u>1,428</u>

34. The operations of Islamic Banking

Statement of financial position as at 31 December 2013

Assets	Note	Bank	
		2013 RM'000	2012 RM'000
Cash and short term funds	(a)	6,859	1,920
Financial assets held-for-trading		83,474	90,211
Other assets		249	248
Total assets		<u>90,582</u>	<u>92,379</u>
Liabilities and shareholders' funds			
Deposits from customers	(b)	57,465	56,788
Deposits and placements of banks and other financial institutions	(c)	779	926
Other liabilities	(d)	1,780	4,574
Taxation		1,326	1,210
Total liabilities		<u>61,350</u>	<u>63,498</u>
Capital funds		25,000	25,000
Retained profits		4,232	3,881
Islamic banking funds		29,232	28,881
Total liabilities and Islamic banking funds		<u>90,582</u>	<u>92,379</u>
Commitments and contingencies		-	-

The notes on pages 87 to 89 are an integral part of these financial statements.

Company No. 312552-W

34. The operations of Islamic Banking (continued)

Statement of profit or loss and other comprehensive income for the year ended 31 December 2013

	2013 RM'000	2012 RM'000
Income derived from investment of Islamic funds	<u>575</u>	<u>2,481</u>
Total net income	575	2,481
Other operating expenses	<u>(108)</u>	<u>(395)</u>
Profit before taxation	467	2,086
Taxation	<u>(116)</u>	<u>(521)</u>
Profit and total comprehensive income for the year	<u>351</u>	<u>1,565</u>

Statement of changes in Islamic Banking funds for the year ended 31 December 2013

	Capital funds RM'000	Retained profits RM'000	Total RM'000
At 1 January 2012	25,000	2,316	27,316
Profit/Total comprehensive income for the year	-	1,565	1,565
At 31 December 2012/1 January 2013	<u>25,000</u>	<u>3,881</u>	<u>28,881</u>
Profit/Total comprehensive income for the year	-	351	351
At 31 December 2013	<u>25,000</u>	<u>4,232</u>	<u>29,232</u>

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

The notes on pages 87 to 89 are an integral part of these financial statements.

34. The operations of Islamic Banking (continued)

Statement of cash flows for the financial year ended 31 December 2013

	2013 RM'000	2012 RM'000
Cash flows from operating activities		
Profit before taxation	467	2,086
Operating profit before working capital changes	467	2,086
Increase/(Decrease) in operating assets	6,736	(9,390)
Decrease in operating liabilities	(2,264)	(2,875)
Cash generated from/(used in) operations	4,939	(10,179)
Income taxes paid	-	-
Net increase/ (decrease) in cash and cash equivalents	4,939	(10,179)
Cash and cash equivalents at 1 January	1,920	12,099
Cash and cash equivalents at 31 December (Note 34(a))	6,859	1,920

The notes on pages 87 to 89 are an integral part of these financial statements.

34. 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 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 banking 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 2013, 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 Hussien Hamed Sayed Hassan	4/4
Dr Muhammad Qaseem	4/4
Encik Lokmanulhakim bin Hussain (resigned on 31 December 2013)	2/4

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 Note 1 to the financial statements of the Group and of the Bank and have been prepared under the accrual basis of accounting.

(a) Cash and short-term funds

	Group and Bank	
	2013 RM'000	2012 RM'000
Cash and balances with banks and other financial institutions	6,859	1,920
Money at call and deposit placements Maturing within on a month	-	-
	<u>6,859</u>	<u>1,920</u>

34. The operations of Islamic Banking (continued)

(b) Deposits from customers

	Group and Bank	
	2013	2012
	RM'000	RM'000
Non-Mudharabah		
Demand deposits	7,465	6,788
Other deposits	50,000	50,000
	<u>57,465</u>	<u>56,788</u>

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

	Group and Bank	
	2013	2012
	RM'000	RM'000
Licensed banks	<u>779</u>	<u>926</u>

(d) Other liabilities

	Group and Bank	
	2013	2012
	RM'000	RM'000
Bills payable	380	732
Other liabilities	1,400	3,842
	<u>1,780</u>	<u>4,574</u>

(e) Capital adequacy

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

34. The operations of Islamic Banking (continued)

(e) Capital adequacy (continued)

Components of Tier I and Tier II Capital:

	Group and Bank	
	2013 RM'000	2012 RM'000
Tier 1 capital		
Capital funds	25,000	25,000
Retained profits	4,232	3,881
Total common equity tier 1/Total tier 1 capital	29,232	28,881
Total Tier 2 capital	-	-
Capital base	29,232	28,881
Common equity tier 1/Tier 1 capital ratio	627.811%	137.183%
Total capital ratio	627.811%	137.183%

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

RISK TYPE		Risk Weighted Assets	
		31.12.2013 RM'000	31.12.2012 RM'000
1	Credit risk	117	94
2	Market risk	430	17,688
3	Operational risk	4,109	3,271
Total		4,656	21,053

35. Comparatives

Certain comparatives had been reclassified to conform with current year presentation.