

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

**Financial statements for the year
ended 31 December 2008**

Deutsche Bank (Malaysia) Berhad

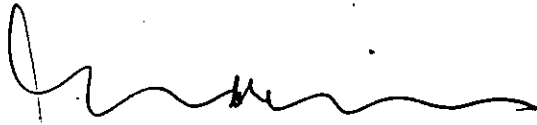
(Company No. 312552-W)

(Incorporated in Malaysia)

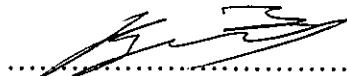
and its subsidiaries**Statement by Directors pursuant to Section 169(15)
of the Companies Act, 1965**

In the opinion of the Directors, the financial statements set out on pages 21 to 72 are drawn up in accordance with Financial Reporting Standards as modified by Bank Negara Malaysia's Guidelines and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Bank at 31 December 2008 and of their financial performance and cash flows for the year then ended.

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



.....
Tun Mohamed Dzaidin bin Haji Abdullah



.....
Raymond Yeoh Cheng Seong

Kuala Lumpur,

Date: **26 MAR 2009**

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

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

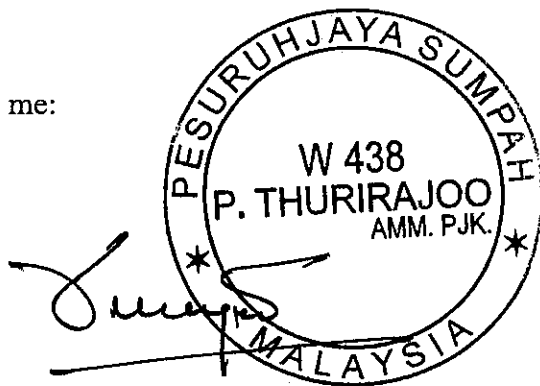
I, **Liew Yeh Yin**, being the officer primarily responsible for the financial management of Deutsche Bank (Malaysia) Berhad, do solemnly, and sincerely declare that the financial statements set out on pages 21 to 72 are, to the best of my knowledge and belief, correct, and I make this solemn declaration 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
26 MAR 2009
.....



.....
Liew Yeh Yin

Before me:



NO. 656, TINGKAT 2,
BATU 4, JALAN IPOH,
51200 KUALA LUMPUR.

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 members 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 balance sheets as at 31 December 2008 of the Group and of the Bank, and the income statements, statements of changes in equity and cash flow statements of the Group and of the Bank for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 21 to 72.

Directors' Responsibility for the Financial Statements

The Directors of the Bank are responsible for the preparation and fair presentation of these financial statements in accordance with Financial Reporting Standards as modified by Bank Negara Malaysia's Guidelines and the Companies Act, 1965 in Malaysia. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 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 judgment, 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 and fair presentation of the financial statements 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 have been properly drawn up in accordance with Financial Reporting Standards as modified by Bank Negara Malaysia's Guidelines and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Bank as of 31 December 2008 and of their financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

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

- a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Bank and its subsidiaries have been properly kept in accordance with the provisions of the Act.
- b) We are satisfied that the accounts of the subsidiaries 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) Our audit reports on the accounts of the subsidiaries 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 members of the Bank, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.



KPMG
Firm Number: AF 0758
Chartered Accountants



Adrian Lee Lye Wang
Approval Number: 2679/11/09(J)
Chartered Accountant

Petaling Jaya, Selangor

Date: **26 MAR 2009**

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

Balance sheets at 31 December 2008

	Note	Group		Bank	
		2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Assets					
Cash and short term funds	3	305,889	2,294,493	305,889	2,294,493
Securities purchased under resale agreement		6,070,853	5,589,379	6,070,853	5,589,379
Securities held-for-trading	4	698,204	2,523,351	698,204	2,523,351
Securities available-for-sale	5	2,849	3,621	2,849	3,621
Securities held-to-maturity	6	1,591	1,591	1,591	1,591
Loans, advances and financing	7	977,502	709,359	977,502	709,359
Other assets	8	2,827,928	1,015,541	2,827,928	1,015,541
Statutory deposit with Bank Negara Malaysia	9	225	3,059	225	3,059
Investments in subsidiary companies	10	-	-	20	20
Plant and equipment	11	6,083	6,182	6,083	6,182
Deferred tax assets	12	20,856	16,394	20,856	16,394
Total assets		10,911,980	12,162,970	10,912,000	12,162,990
Liabilities and shareholders' funds					
Deposits from customers	13	5,942,278	4,375,926	5,942,298	4,375,946
Deposits and placements of banks and other financial institutions	14	1,062,054	2,726,280	1,062,054	2,726,280
Obligations on securities sold under repurchase agreements		-	3,109,136	-	3,109,136
Other liabilities	15	2,808,901	1,003,621	2,808,901	1,003,621
Taxation		21,266	22,021	21,266	22,021
Total liabilities		9,834,499	11,236,984	9,834,519	11,237,004

Balance sheets at 31 December 2008 (continued)

	Note	Group		Bank	
		2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Share capital	16	173,599	173,599	173,599	173,599
Reserves	17	903,882	752,387	903,882	752,387
Shareholders' funds		<u>1,077,481</u>	<u>925,986</u>	<u>1,077,481</u>	<u>925,986</u>
Total liabilities and shareholders' funds		<u>10,911,980</u>	<u>12,162,970</u>	<u>10,912,000</u>	<u>12,162,990</u>
Off-balance sheet exposures	30	<u>127,768,333</u>	<u>137,187,491</u>	<u>127,768,333</u>	<u>137,187,491</u>

The notes on pages 28 to 72 are an integral part of these financial statements.

Deutsche Bank (Malaysia) Berhad
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Income statements for the year ended 31 December 2008

		Group and Bank	
		2008	2007
	Note	RM'000	RM'000
Interest income	18	437,708	400,068
Interest expense	19	(273,840)	(264,679)
		<hr/>	<hr/>
Net interest income		163,868	135,389
Non-interest income	20	116,438	156,788
		<hr/>	<hr/>
Operating income		280,306	292,177
Other operating expenses	21	(94,370)	(102,480)
		<hr/>	<hr/>
Operating profit		185,936	189,697
Loan loss and allowance written back	22	8,987	4,907
Impairment losses from securities available-for-sale		(241)	(106)
		<hr/>	<hr/>
Profit before taxation		194,682	194,498
Taxation	25	(42,912)	(53,793)
		<hr/>	<hr/>
Profit after taxation		151,770	140,705
		<hr/> <hr/>	<hr/> <hr/>
Earnings per share (sen)	26	87.4	81.1
		<hr/> <hr/>	<hr/> <hr/>
Dividend per share (sen) - net	27	-	-
		<hr/> <hr/>	<hr/> <hr/>

The notes on pages 28 to 72 are an integral part of these financial statements.

Deutsche Bank (Malaysia) Berhad

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Statements of changes in equity for the year ended 31 December 2008

Group and Bank	Share capital RM'000	Share premium RM'000	Non-distributable-->		Distributable		Total reserves RM'000	Proposed dividend RM'000	Total RM'000
			Share	Other reserves RM'000	Retained profits RM'000	Retained profits RM'000			
At 1 January 2007	173,599	357,763	175,075		78,136		610,974	59,200	843,773
Net profit for the year	-	-	-		140,705		140,705	-	140,705
Unrealised net gain on revaluation of securities available-for-sale	-	-	708		-		708	-	708
Dividend paid - Final 2006	-	-	-		-		-	(59,200)	(59,200)
At 31 December 2007	173,599	357,763	175,783		218,841		752,387	-	925,986
	Note 16	Note 17	Note 17		Note 17		Note 17		Note 17

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Statements of changes in equity for the year ended 31 December 2008 (continued)

Group and Bank	Share capital RM'000	←--Non-distributable-->			Distributable		Proposed dividend RM'000	Total reserves RM'000	Total RM'000
		Share premium RM'000	Other reserves RM'000	Retained profits RM'000	Reserves RM'000				
At 1 January 2008	173,599	357,763	175,783	218,841	752,387	-	925,986		
Net profit for the year	-	-	-	151,770	151,770	-	151,770		
Unrealised net loss on revaluation of securities available-for-sale	-	-	(275)	-	(275)	-	(275)		
At 31 December 2008	173,599	357,763	175,508	370,611	903,882	-	1,077,481		
	Note 16	Note 17	Note 17	Note 17	Note 17				

The notes on pages 28 to 72 are an integral part of these financial statements.

Deutsche Bank (Malaysia) Berhad

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Cash flow statements for the year ended 31 December 2008

	Group and Bank	
	2008	2007
	RM'000	RM'000
Cash flows from operating activities		
Profit before taxation	194,682	194,498
Adjustments for items not involving the movement of cash and cash equivalents:		
Depreciation of plant and equipment	2,777	2,531
Net gain on disposal of plant and equipment	-	(1)
Plant and equipment written off	18	-
Gain on disposal of shares	(17)	-
Impairment losses from securities available-for-sale	241	106
Net unrealised gains on revaluation of trading portfolio (including derivatives)	(110,866)	(58,479)
Unrealised (gains)/losses from foreign exchange translation	(77,897)	50,693
(Gains)/Losses arising from sale of securities held-for-trading	(6,497)	7,648
	<hr/>	<hr/>
Operating profit before changes in operating assets	2,441	196,996
(Increase)/Decrease in operating assets		
Securities purchased under resale agreements	(481,474)	(3,793,601)
Deposits and placements with financial institutions	-	353,000
Securities held-for-trading	1,831,644	(1,499,261)
Loans, advances and financing	(268,143)	(193,546)
Other assets	213,679	353,018
Statutory deposit with Bank Negara Malaysia	2,834	36,000
Increase/(Decrease) in operating liabilities		
Deposits from customers	1,566,352	959,837
Deposits and placements of banks and other financial institutions	(1,664,226)	756,448
Obligations on securities sold under repurchase agreements	(3,109,136)	1,543,811
Other liabilities	(32,023)	(505,868)
	<hr/>	<hr/>
Cash used in operating activities	(1,938,052)	(1,793,166)
Net income taxes paid	(48,018)	(63,499)
	<hr/>	<hr/>
Net cash used in operating activities	(1,986,070)	(1,856,665)
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Cash flow statements for the year ended 31 December 2008 (continued)

	Group and Bank	
	2008	2007
	RM'000	RM'000
Cash flows from investing activities		
Purchase of plant and equipment	(2,696)	(1,183)
Proceeds from disposal of plant and equipment	-	1
Proceeds from disposal of shares	162	-
	<hr/>	<hr/>
Net cash used in investing activities	(2,534)	(1,182)
	<hr/>	<hr/>
Cash flows from financing activities		
Dividends paid	-	(59,200)
	<hr/>	<hr/>
Net cash used in financing activities	-	(59,200)
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(1,988,604)	(1,917,047)
Cash and cash equivalents at beginning of year	2,294,493	4,211,540
	<hr/>	<hr/>
Cash and cash equivalents at end of year (Note 3)	305,889	2,294,493
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The notes on pages 28 to 72 are an integral part of these financial statements.

Deutsche Bank (Malaysia) Berhad

(Company No. 312552-W)

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and its subsidiaries

Notes to the financial statements

The Bank is incorporated and domiciled in Malaysia. The registered office of the Bank is located at Level 18, Menara IMC, 8, Jalan Sultan Ismail, 50250 Kuala Lumpur.

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

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

The financial statements were approved and authorised for issue by the Board of Directors on. **26 MAR 2009**

1. Basis of preparation

(a) Statement of compliance

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

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

FRSs / Interpretations	Effective date
FRS 4, <i>Insurance Contracts</i>	1 January 2010
FRS 7, <i>Financial Instruments: Disclosures</i>	1 January 2010
FRS 8, <i>Operating Segments</i>	1 July 2009
FRS 139, <i>Financial Instruments: Recognition and Measurement</i>	1 January 2010
IC Interpretation 9, <i>Reassessment of Embedded Derivatives</i>	1 January 2010
IC Interpretation 10, <i>Interim Financial Reporting and Impairment</i>	1 January 2010

The Group and the Bank plan to apply the abovementioned FRSs/Interpretations from the annual period beginning 1 January 2010 (except for FRS 4 and FRS 8 which are not applicable to the Group and the Bank).

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

The impact of applying FRS 7 and FRS 139 on the financial statements upon first adoption as required by paragraph 30(b) of FRS 108, *Accounting Policies, Changes in Accounting Estimates and Errors* is not disclosed by virtue of the exemptions given in the respective FRSs. The initial application of the interpretations is not expected to have any material impact on the financial statements of the Group and the Bank.

(b) Basis of measurement

The financial statements of the Group and of the Bank have been prepared on the historical cost basis, except for the following assets and liabilities which are stated at fair value: securities held-for-trading, securities available-for-sale and derivative financial instruments, as disclosed in the notes to the financial statements.

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

In the preparation of the financial statements, management has been required to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the financial statements in the period in which the estimate is revised and in any future periods affected.

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 includes fair value estimation for securities held-for-trading (Note 4), securities available-for-sale (Note 5) and derivative financial assets and liabilities (Note 8 and Note 15) – the fair value of securities that are not traded in an active market are determined using valuation techniques based on assumptions of market conditions existing at the balance sheet date, including reference to quoted market prices and independent dealer quotes for similar securities and discounted cash flows method.

2. Significant accounting policies

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

(a) Basis of consolidation

(i) *Subsidiaries*

The consolidated financial statements include the financial statements of the Bank and its subsidiary companies made up to the end of the financial year.

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

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

Investments in subsidiaries are stated in the Company's balance sheet at cost less impairment losses (if any).

(ii) *Transactions eliminated on consolidation*

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

Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Cash and cash equivalents

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

2. Significant accounting policies (continued)

(c) 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.

(d) Securities

The holding of the securities portfolio of the Bank are recognised on the following categories and valuation methods:

(i) *Securities held-for-trading*

Securities are classified as held-for-trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or it is part of a portfolio of identified securities that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Securities classified as held-for-trading are stated at fair value and any gain or loss arising from a change in the fair value is recognised in the income statement.

(ii) *Securities held-to-maturity*

Held-to-maturity investments are securities with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity. Unquoted shares in organisations set up for socio-economic purposes which do not have a quoted market price in an active market and whose fair value cannot be reliably measured are classified as securities held-to-maturity.

The securities held-to-maturity are measured at accreted/amortised cost based on the effective yield method. Amortisation of premium, accretion of discount and impairment loss as well as gain or loss arising from derecognition of securities held-to-maturity are recognised in the income statement.

(iii) *Securities available-for-sale*

Available-for-sale securities are securities that are not classified as held-for-trading or held-to-maturity and these are measured at fair value. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured will be stated at cost. Any gain or loss arising from a change in the fair value will be recognised directly in equity, net of applicable taxes, except for impairment losses which will be recognised in the income statement.

2. Significant accounting policies (continued)

(e) Loans, advances and financing

Loans, advances and financing are carried at their outstanding principal and interest balances net of unearned interest income, general and specific allowances for bad and doubtful debts.

Specific allowances are made for doubtful debts which have been individually reviewed and specifically identified as bad or doubtful.

A general allowance based on a percentage of the loan portfolio is also made to cover possible losses which are not specifically identified.

The carrying amount of the Group's and the Bank's loans, advances and financing are reviewed at each balance sheet date to determine whether there is objective evidence of impairment.

Impaired loans are measured at their estimated recoverable amount based on the discounted cash flow methodology. Additional specific allowances are provided if the recoverable amount (present value of estimated future cash flows discounted at original effective interest rate) is lower than the net book value of the loans (outstanding amount of loans, advances and financing, net of specific allowance).

An uncollectible loan or portion of a loan classified as bad is written off after taking into consideration the realisable value of collateral, if any, when in the judgement of the management, there is no prospect of recovery.

(f) Investments in subsidiary companies

A subsidiary company is a company in which the Bank controls the composition of its Board of Directors or holds more than half of its voting power, or holds more than half of its issued ordinary share capital.

Investments in subsidiary companies are stated at cost less impairment losses, if any.

2. Significant accounting policies (continued)

(g) Plant and equipment

(i) Recognition and measurement

Items of plant and equipment are stated at cost less accumulated depreciation and impairment losses (if any).

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, 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.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

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

(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 and its cost can be measured reliably. The costs of the day-to-day servicing of plant and equipment are recognised in the income statement as incurred.

(iii) Depreciation

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of plant and equipment.

The estimated useful lives for the current and comparative periods are as follows:

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

2. Significant accounting policies (continued)

(g) Plant and equipment (continued)

(iii) Depreciation (continued)

The depreciable amount is determined after deducting the residual value.

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

(h) Impairment

The carrying amount of assets, other than deferred tax assets and financial assets (other than investments in subsidiary companies), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or the cash-generating unit to which it belongs exceeds its recoverable amount. Impairment losses are recognised in the income statement.

The recoverable amount is the greater of the asset's net selling price and its value in use. In assessing value in use, 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. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. The reversal is recognised in the income statement.

(i) Tax expense

Tax expense comprises current and deferred tax. Tax expense is recognised in the income statements except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

2. Significant accounting policies (continued)

(i) Tax expense (continued)

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit (tax loss). Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the balance sheet date.

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

(j) Recognition of interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised in the income statement 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 Bank estimates cash flows considering all contractual terms of the financial instrument but not future credit losses. The calculation includes all amounts paid or received by the Bank that are an integral part of the effective interest rate, including transaction costs and all other premiums or discounts.

Where an account is classified as non-performing, recognition of interest income is suspended until it is realised on a cash basis. Interest accrued and recognised as income prior to the date the loans are classified as non-performing are reversed out of income.

Customers' accounts are classified as non-performing where repayments are in arrears for more than three months for loans and overdrafts. Trade related bills are classified as non-performing when they are due and unpaid for three months from the first day of default.

2. Significant accounting policies (continued)

(k) Recognition of fees and other income

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

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

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

(l) Derivatives and hedge accounting

Derivatives are recognised at fair value with changes in fair value recognised in the income statement, unless they are part of a hedging relationship which qualifies for hedge accounting. The accounting for changes in the fair value of a derivative which qualifies for hedge accounting depends on the intended use of the derivative and the resulting designation as either:

(i) *Fair value hedge*

Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged items.

(ii) *Cash flow hedge*

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

(m) Foreign currency

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

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date 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 income statement.

2. Significant accounting policies (continued)

(n) Employee benefits

(i) *Short-term benefits*

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

(ii) *Defined contribution plan*

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

(o) Operating lease

Leases are operating leases. The leased assets are not recognised on the Group's balance sheet. Property interest held under an operating lease, which is held to earn rental income or for capital appreciation or both, is classified as investment property.

Payments made under operating leases are recognised in the income statements 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.

(p) Provisions

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

3. Cash and short term funds

	Group and Bank	
	2008	2007
	RM'000	RM'000
Cash and balances with banks and other financial institutions	150,889	93,740
Money at call and deposit placements maturing within one month	155,000	2,200,753
	<u>305,889</u>	<u>2,294,493</u>

4. Securities held-for-trading

	Group and Bank	
	2008	2007
	RM'000	RM'000
At fair value		
Malaysian Government Treasury Bills	-	4,961
Malaysian Government Securities	203,501	226,585
Malaysian Investment Issue	-	17,490
Bank Negara Malaysia Bills	486,319	654,386
Cagamas bonds	6,269	6,388
Khazanah bonds	1,918	1,849
Negotiable instruments of deposit	-	1,598,400
Private debt securities	197	13,292
	<u>698,204</u>	<u>2,523,351</u>

5. Securities available-for-sale

	Group and Bank	
	2008	2007
	RM'000	RM'000
At fair value		
Shares	349	1,121
Irredeemable convertible unsecured loan stocks quoted in Malaysia	2,500	2,500
	<u>2,849</u>	<u>3,621</u>

6. Securities held-to-maturity

	Group and Bank	
	2008	2007
	RM'000	RM'000
Unquoted securities:		
Shares, at cost	1,591	1,591
	<u>1,591</u>	<u>1,591</u>

7. Loans, advances and financing

	Group and Bank	
	2008	2007
	RM'000	RM'000
Overdrafts	24,178	15,141
Term loans - housing loans	36,928	39,957
- other term loans	482,636	508,764
Bills receivable	185,121	58,290
Claims on customers under acceptance credits	268,906	111,896
Staff loans	4,658	5,424
	<hr/>	<hr/>
Unearned interest	1,002,427	739,472
	(884)	(451)
	<hr/>	<hr/>
Gross loans, advances and financing	1,001,543	739,021
Allowance for bad and doubtful debts		
- General	(23,946)	(23,946)
- Specific	(95)	(5,716)
	<hr/>	<hr/>
Net loans, advances and financing	<u>977,502</u>	<u>709,359</u>

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

	Group and Bank	
	2008	2007
	RM'000	RM'000
Maturing within one year	959,213	675,021
One year to three years	1,807	19,031
Three years to five years	1,939	1,964
Over five years	38,584	43,005
	<hr/>	<hr/>
	<u>1,001,543</u>	<u>739,021</u>

7. Loans, advances and financing (continued)

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

	Group and Bank	
	2008	2007
	RM'000	RM'000
Domestic banking institutions	4,012	6,844
Domestic business enterprises - others	775,194	630,757
Individuals	41,600	50,088
Foreign entities	180,737	51,332
	<u>1,001,543</u>	<u>739,021</u>

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

	Group and Bank	
	2008	2007
	RM'000	RM'000
Fixed rate		
- Other fixed rate loan/financing	4,672	5,424
Variable rate		
- Base lending rate plus	56,911	46,117
- Cost plus	935,539	678,079
- Other variable rates	4,421	9,401
	<u>1,001,543</u>	<u>739,021</u>

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

	Group and Bank	
	2008	2007
	RM'000	RM'000
Manufacturing	417,687	298,678
Construction	62,271	48,011
Real estate	1,196	2,262
Purchase of landed property		
- residential	41,478	44,720
- non-residential	-	360
Wholesale & retail trade and restaurants & hotel	175,626	131,562
Finance, insurance and business services	269,749	154,691
Purchase of transport vehicles	142	210
Others	33,394	58,527
	<u>1,001,543</u>	<u>739,021</u>

7. Loans, advances and financing (continued)

Movements in non-performing loans, advances and financing are as follows:

	Group and Bank	
	2008	2007
	RM'000	RM'000
Balance at 1 January	12,393	23,937
Classified as non-performing during the year	4,539	3,628
Reclassified as performing during the year	(2,902)	(2,980)
Amount recovered	(5,462)	(6,512)
Amounts written off	(57)	(5,680)
	<hr/>	<hr/>
At end of year	8,511	12,393
Specific allowance for doubtful debts	(95)	(5,716)
	<hr/>	<hr/>
Net non-performing loans, advances and financing	<u>8,416</u>	<u>6,677</u>
Percentage of net non-performing loans, advances and financing to total loans, advances and financing (net of specific allowance)	<u>0.84%</u>	<u>0.91%</u>

Movements in the allowance for bad and doubtful debts and financing accounts are as follows:

	Group and Bank	
	2008	2007
	RM'000	RM'000
General allowance:		
Balance at 1 January/31 December	23,946	23,946
	<hr/>	<hr/>
As a % of adjusted gross loans, advances and financing less specific allowance	<u>2.39%</u>	<u>3.27%</u>
Specific allowance:		
Balance at 1 January	5,716	17,856
Reclassification from/(to) provision for commitment and contingencies	3,274	(2,256)
Amounts recovered	(8,876)	(4,256)
Amounts written off	(57)	(5,680)
Allowance made during the year	38	52
	<hr/>	<hr/>
Balance at 31 December	<u>95</u>	<u>5,716</u>

7. Loans, advances and financing (continued)

Non-performing loans, advances and financing analysed by economic purposes are as follows:

	Group and Bank	
	2008	2007
	RM'000	RM'000
Manufacturing	2,516	5,519
Purchase of landed properties - residential	5,931	6,742
Others	64	132
	<u>8,511</u>	<u>12,393</u>

8. Other assets

	Group and Bank	
	2008	2007
	RM'000	RM'000
Interest/Income receivable	21,212	36,489
Margin placed with exchange	4,195	12,111
Derivatives	2,566,240	927,984
Other debtors, deposits and prepayments	236,281	38,957
	<u>2,827,928</u>	<u>1,015,541</u>

9. Statutory deposit with Bank Negara Malaysia

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

10. Investments in subsidiary companies

	Bank	
	2008	2007
	RM'000	RM'000
Unquoted shares, at cost	20	20

The subsidiary companies of the Bank, which are incorporated in Malaysia, are as follows:-

Name	Principal activity	Percentage of equity held	
		2008	2007
DB (Malaysia) Nominee (Tempatan) Sdn. Bhd.	Nominee services	100%	100%
DB (Malaysia) Nominee (Asing) Sdn. Bhd.	Nominee services	100%	100%

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

11. Plant and equipment

Group and Bank	Renovations RM'000	Office equipment RM'000	Computer equipment and software RM'000	Furniture and fittings RM'000	Motor vehicles RM'000	Total RM'000
<i>Cost</i>						
At 1 January 2007	7,868	3,760	11,755	3,328	468	27,179
Additions	580	66	537	-	-	1,183
Disposals	-	(12)	(34)	-	-	(46)
At 31 December 2007/ 1 January 2008	8,448	3,814	12,258	3,328	468	28,316
Additions	1,141	404	1,141	10	-	2,696
Write-offs	(116)	(86)	(910)	(23)	-	(1,135)
At 31 December 2008	9,473	4,132	12,489	3,315	468	29,877
<i>Accumulated depreciation</i>						
At 1 January 2007	6,309	2,648	7,597	2,860	235	19,649
Charge for the year	391	411	1,584	67	78	2,531
Disposals	-	(12)	(34)	-	-	(46)
At 31 December 2007/ 1 January 2008	6,700	3,047	9,147	2,927	313	22,134
Charge for the year	925	87	1,589	99	77	2,777
Write-offs	(116)	(73)	(909)	(19)	-	(1,117)
At 31 December 2008	7,509	3,061	9,827	3,007	390	23,794
<i>Carrying amounts</i>						
At 1 January 2007	1,559	1,112	4,158	468	233	7,530
At 31 December 2007/ 1 January 2008	1,748	767	3,111	401	155	6,182
At 31 December 2008	1,964	1,071	2,662	308	78	6,083

12. Deferred tax assets

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

	Group and Bank	
	2008	2007
	RM'000	RM'000
Recognised in income statement		
Plant and equipment		
- capital allowances	(560)	(723)
General allowance for loans	5,987	6,466
Others	15,690	10,748
	<u>21,117</u>	<u>16,491</u>
Recognised in equity		
Revaluation of securities available-for-sale	(261)	(97)
	<u>20,856</u>	<u>16,394</u>

13. Deposits from customers

	Group		Bank	
	2008	2007	2008	2007
	RM'000	RM'000	RM'000	RM'000
Demand deposits	707,508	506,267	707,528	506,287
Savings deposits	8,747	12,633	8,747	12,633
Fixed deposits	405,529	327,065	405,529	327,065
Other deposits	4,524,294	3,112,761	4,524,294	3,112,761
Negotiable instruments of deposit	296,200	417,200	296,200	417,200
	<u>5,942,278</u>	<u>4,375,926</u>	<u>5,942,298</u>	<u>4,375,946</u>

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

	Group and Bank	
	2008	2007
	RM'000	RM'000
Due within six months	2,216,420	1,485,381
More than six months to one year	635,591	65,394
More than one year to three years	589,012	1,467,651
More than three years to five years	1,635,000	838,600
More than five years	150,000	-
	<u>5,226,023</u>	<u>3,857,026</u>

13. Deposits from customers (continued)

The deposits are sourced from the following types of customers:

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Business enterprises	2,120,508	1,612,562	2,120,528	1,612,582
Individuals	52,089	65,913	52,089	65,913
Foreign customers	109,881	77,502	109,881	77,502
Others	3,659,800	2,619,949	3,659,800	2,619,949
	<u>5,942,278</u>	<u>4,375,926</u>	<u>5,942,298</u>	<u>4,375,946</u>

14. Deposits and placements of banks and other financial institutions

	Group and Bank	
	2008 RM'000	2007 RM'000
Licensed banks	3,000	6,000
Other financial institutions	1,059,054	2,720,280
	<u>1,062,054</u>	<u>2,726,280</u>

15. Other liabilities

	Group and Bank	
	2008 RM'000	2007 RM'000
Provision for commitments and contingencies	-	3,274
Interest payable	21,870	35,046
Bills payable	91,186	90,764
Derivatives	2,088,080	686,230
Employee benefits	16,178	33,198
Other liabilities	591,587	155,109
	<u>2,808,901</u>	<u>1,003,621</u>

15. Other liabilities (continued)

Movements in provision for commitments and contingencies are as follows:-

	Group and Bank	
	2008 RM'000	2007 RM'000
Balance at 1 January	3,274	1,018
Reclassification of provision (to)/from specific allowance	(3,274)	2,256
Balance at 31 December	-	3,274

16. Share capital

Group and Bank	Number of shares		Amount	
	2008 '000	2007 '000	2008 RM'000	2007 RM'000
<i>Authorised:</i>				
Ordinary shares of RM1 each	200,000	200,000	200,000	200,000
<i>Issued and fully paid:</i>				
At 31 December	173,599	173,599	173,599	173,599

17. Reserves

	Group and Bank	
	2008 RM'000	2007 RM'000
Non distributable		
Share premium	357,763	357,763
Statutory reserve	174,722	174,722
Revaluation reserve	786	1,061
	175,508	175,783
Distributable		
Retained profits	370,611	218,841
	903,882	752,387

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

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

17. Reserves (continued)

Subject to agreement by the Inland Revenue Board, the Bank has sufficient tax credit under Section 108 of the Income Tax Act, 1967 and tax exempt income to frank the payment of dividends out of all of its retained profits as at 31 December 2008.

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

18. Interest income

	Group and Bank	
	2008	2007
	RM'000	RM'000
Loans and advances		
- Interest income other than recoveries from NPL	43,269	32,089
- Recoveries from NPL	2,672	1,077
Money at call and deposit placements with financial institutions	339,046	285,885
Securities held-for-trading	52,507	80,997
Others	214	20
	<u>437,708</u>	<u>400,068</u>

19. Interest expense

	Group and Bank	
	2008	2007
	RM'000	RM'000
Deposits and placements of banks and other financial institutions	159,160	137,033
Deposits from customers	114,444	125,905
Others	236	1,741
	<u>273,840</u>	<u>264,679</u>

20. Non-interest income

	Group and Bank	
	2008	2007
	RM'000	RM'000
Fee income:		
Commissions	4,875	1,104
Service charges and fees	8,990	13,088
Guarantee fees	2,553	1,640
Arranger fees	501	900
	<u>16,919</u>	<u>16,732</u>

20. Non-interest income (continued)

	Group and Bank	
	2008	2007
	RM'000	RM'000
Gains/(Losses) arising from sale of securities held-for-trading	6,497	(7,648)
Net (losses)/gains arising from trading in derivatives	(95,518)	45,657
Net unrealised gains on revaluation of trading portfolio (including derivatives)	110,866	58,479
Net (losses)/gains arising from dealing in foreign exchange	(17,009)	70,138
Unrealised gains/(losses) from foreign exchange translation	77,897	(50,693)
Gross dividends from securities held-to-maturity	311	110
Gain on disposal of plant and equipment	-	1
Other operating income, net	16,475	24,012
	<u>99,519</u>	<u>140,056</u>
	<u>116,438</u>	<u>156,788</u>

21. Other operating expenses

	Group and Bank	
	2008	2007
	RM'000	RM'000
Personnel costs		
- Salaries, allowances and bonuses	32,723	45,162
- Contributions to Employee Provident Fund	5,020	6,899
- Others	3,787	3,236
Establishment costs		
- Rental	2,299	2,295
- Depreciation	2,777	2,531
- Others	4,092	3,765
Marketing expenses	1,942	2,955
Administration and general expenses		
- Intercompany expenses	33,898	28,503
- Communication	1,335	1,178
- Auditors' remuneration		
- statutory audit fee	105	98
- other services	158	157
- Plant and equipment written off	18	-
- Others	6,216	5,701
	<u>94,370</u>	<u>102,480</u>

The number of employees of the Group and the Bank at the end of the year was 149 (2007 - 150).

22. Loan loss and allowance written back

	Group and Bank	
	2008	2007
	RM'000	RM'000
Allowance for bad and doubtful debts on loans and financing		
Specific allowance		
- Provided for the financial year	(38)	(52)
- Written back	8,876	4,256
Bad debts on loans and financing		
- Recovered	149	703
	<u>8,987</u>	<u>4,907</u>

23. Related parties

Identity of related parties

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

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

Transactions with key management personnel

Key management personnel compensation

Key management personnel compensation is disclosed in Note 24.

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

2008	Holding company	Subsidiary	Other related
	company	companies	companies
	RM'000	RM'000	RM'000
<i>Income</i>			
Interest on advances and deposits	40,545	-	-
Other operating income	26,278	-	-
	<u>66,823</u>	<u>-</u>	<u>-</u>

23. Related parties (continued)

2008	Holding company RM'000	Subsidiary companies RM'000	Other related companies RM'000
<i>Expenditure</i>			
Interest on advances	38,535	-	-
Other operating expenses	7,640	-	-
Administration and general expenses	34,030	-	-
	<u>80,205</u>	<u>-</u>	<u>-</u>
<i>Amount due from</i>			
Cash and short term funds	57,367	-	2,160
Other assets - Others	36,156	-	100
- Derivatives	435,743	-	11
	<u>529,266</u>	<u>-</u>	<u>2,271</u>
<i>Amount due to</i>			
Deposits and placements of banks and other financial institutions	785,306	20	-
Other liabilities - Others	77,559	-	-
- Derivatives	454,167	-	-
	<u>1,317,032</u>	<u>20</u>	<u>-</u>
2007			
<i>Income</i>			
Interest on advances and deposits	156,022	-	-
Other fee income	428	-	-
Other operating income	32,745	-	1,863
	<u>189,195</u>	<u>-</u>	<u>1,863</u>
<i>Expenditure</i>			
Interest on advances	72,718	-	-
Other operating expenses	28,870	-	-
Administration and general expenses	11,253	-	-
	<u>112,841</u>	<u>-</u>	<u>-</u>

23. Related parties (continued)

2007	Holding company RM'000	Subsidiary companies RM'000	Other related companies RM'000
<i>Amount due from</i>			
Cash and short term funds	854,634	-	-
Other assets - Others	36,890	-	767
- Derivatives	132,577	-	6
	<u>1,024,101</u>	<u>-</u>	<u>773</u>
<i>Amount due to</i>			
Deposits and placements of banks and other financial institutions	2,466,298	20	430,629
Other liabilities - Others	67,585	-	-
- Derivatives	305,371	-	5
	<u>2,839,254</u>	<u>20</u>	<u>430,634</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 2008 RM'000
Outstanding credit exposures with connected parties	853,384
Of which:	
Total credit exposure which is non performing	-
Total credit exposures	<u>5,796,687</u>
Percentage of outstanding credit exposures to connected parties	
- as a proportion of total credit exposures	<u>14.72%</u>
- as a proportion of capital base	<u>79.03%</u>
- which is non performing	<u>0%</u>

23. Related parties (continued)

Credit transactions and exposures with connected parties (continued)

The disclosure on credit transactions and exposures with connected parties above is presented in accordance with para 9.1 of Bank Negara Malaysia's revised Guidelines on Credit Transactions and Exposures with Connected Parties, which became effective on 1 January 2008.

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

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

24. Key management personnel compensation

The key management personnel compensations are as follows:-

	Group and Bank	
	2008	2007
	RM'000	RM'000
Executive Directors		
- Salary and other remuneration	1,261	1,650
- Bonuses	645	2,084
- Benefits-in-kind	77	79
Non-Executive Directors		
- Fees	660	600
- Other remuneration	54	79
	<u>2,697</u>	<u>4,492</u>
Other key management personnel:		
- Short-term employee benefits	3,438	3,817
- Share-based payments	52	22
	<u>3,490</u>	<u>3,839</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.

26. Earnings per share

Basic/diluted earnings per share

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

	Group and Bank	
	2008	2007
	RM'000	RM'000
Profits attributable to ordinary shareholders	151,770	140,705
Weighted average number of ordinary shares Issued ordinary shares as at 31 December	173,599	173,599
	<u>87.4</u>	<u>81.1</u>

	Group and Bank	
	2008	2007
	(sen)	(sen)
Basic/diluted earnings per share	<u>87.4</u>	<u>81.1</u>

27. Dividend per share

	2008	2007
	RM'000	RM'000
Bank		
Dividend paid		
Final dividend of 46.7% less 27% tax in respect of financial year ended 2006	-	59,200
	<u>-</u>	<u>59,200</u>

The Directors do not recommend any dividend to be paid for the financial year under review.

28. Contingencies

As at 31 December 2008, there is a litigation in process against the Bank arising from an action by two companies, seeking specific damages amounting to RM1 million and general damages for which the amount is not quantifiable at this stage.

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

29. Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	Group and Bank	
	2008	2007
	RM'000	RM'000
Less than one year	2,635	2,295
Between one and five years	5,269	2,295
	<u>7,904</u>	<u>4,590</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.

30. Capital adequacy

	Bank	
	2008	2007
	RM'000	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	370,611	218,841
Less: Deferred tax assets	(20,856)	(16,394)
Total Tier 1 capital	<u>1,055,839</u>	<u>908,531</u>
Tier 2 capital		
General allowance for bad and doubtful debts	23,946	23,946
Total Capital	<u>1,079,785</u>	<u>932,477</u>
Less: Investments in subsidiary companies	(20)	(20)
Capital base	<u>1,079,765</u>	<u>932,457</u>
Core capital ratio	14.54%	16.54%
Risk-weighted capital ratio	14.86%	16.97%

30. Capital adequacy (continued)

With effect from 1 January 2008, the capital adequacy ratios of the Group and the Bank are computed in accordance with Bank Negara Malaysia's revised Risk-weighted Capital Adequacy Framework (RWCAF-Basel II). The Group and the Bank have adopted the Standardised Approach for Credit Risk and Market Risk, and the Basic Indicator Approach for Operational Risk. The comparative capital adequacy ratios for 31 December 2007 have not been restated based on RWCAF-Basel II guidelines, as they represent actual amounts reported for regulatory compliance purposes as of that date.

Note:

	Bank	
	31 December 2008	31 December 2007
The calculation of Risk-Weighted Assets is based on the following requirements:	<u>Basel II</u>	<u>Basel I</u>

Company No. 312552-W

30. Capital adequacy (continued)

The breakdown of risk-weighted assets ("RWA") by exposures in each major risk category for the current financial year are as follows:

	RISK TYPE	Gross Exposures RM'000	Net Exposures RM'000	Risk-Weighted Assets RM'000	Capital Requirements RM'000
1	Credit Risk				
	<u>On-Balance Sheet Exposures</u>				
	Sovereigns/Central Banks	6,165,504	88,727	-	-
	Banks, Development Financial Institutions ("DFIs") and Multilateral Development Banks ("MDBs")	437,731	437,731	177,080	14,166
	Insurance Companies, Securities Firms and Fund Managers	9,380	9,380	8,143	652
	Corporates	774,476	773,737	582,568	46,605
	Regulatory Retail	9	9	7	1
	Residential Mortgages	34,849	34,849	13,090	1,047
	Higher Risk Assets	20	20	30	2
	Other Assets	10,820	10,820	7,546	604
	Equity Exposure	4,460	4,460	3,382	271
	Defaulted Exposures	8,420	8,420	9,678	774
	Total On-Balance Sheet Exposures	7,445,669	1,368,153	801,524	64,122
	<u>Off-Balance Sheet Exposures</u>				
	OTC Derivatives	5,656,039	4,428,534	1,955,798	156,464
	Credit Derivatives	82,619	-	-	-
	Total for Off-Balance Sheet Exposures	5,738,658	4,428,534	1,955,798	156,464
	Total On and Off-Balance Sheet Exposures	13,184,327	5,796,687	2,757,322	220,586

Company No. 312552-W

30. Capital adequacy (continued)

The breakdown of risk-weighted assets ("RWA") by exposures in each major risk category for the current financial year are as follows (continued):

	RISK TYPE	Gross Exposures		Net Exposures	Risk Weighted Assets	Capital Requirements
		Long Position	Short Position			
2	Large Exposures Risk Requirements			RM'000	RM'000	RM'000
3	Market Risk					
	Interest Rate Risk	139,724,990	133,690,041		2,235,077	178,806
	Foreign Currency Risk	1,351,404	2,251		1,351,402	108,112
	Options	-	36,994		462,426	36,994
4	Operational Risk				457,736	36,619
5	Total RWA and Capital Requirements				7,263,963	581,117

30. Capital adequacy (continued)

The breakdown of risk-weighted assets by risk weights for the previous financial year are as follows:

	Bank RM'000
2007	
0%	809,841
10%	-
20%	4,665,932
50%	636,745
100%	821,666
	<hr/>
Total assets for risk-weighted capital ratio	6,934,184
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Total risk-weighted assets	2,073,225
Total market risk	3,420,379
	<hr/>
	5,493,604
	<hr/> <hr/>

30. Capital adequacy (continued)

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

2008 Group and Bank	Principal Amount	Positive Fair Value of Derivative Contracts	Credit Equivalent Amount	Risk Weighted Assets
	RM'000	RM'000	RM'000	RM'000
Direct Credit Substitutes	130		130	130
Transaction Related Contingent Items	908,865		454,433	247,550
Short Term Self Liquidating Trade Related Contingencies	36,970		7,394	4,747
Foreign exchange related contracts				
One year or less	13,844,737	464,477	615,212	220,586
Over one year to five years	3,221,349	164,649	418,812	185,194
Over five years	2,375,887	67,725	310,156	171,941
Interest/Profit rate related contracts				
One year or less	37,916,929	72,389	124,215	23,314
Over one year to five years	55,610,022	1,018,588	2,009,385	417,789
Over five years	10,656,981	580,115	1,345,417	395,669
Equity related contracts				
One year or less	579,068	840	58,747	29,074
Over one year to five years	1,559,613	3,681	190,834	96,800
Over five years	104,243	14,041	29,677	8,380
Credit Derivative Contracts				
One year or less	-	-	-	-
Over one year to five years	82,619	-	-	-
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	208		104	39
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	870,712		174,142	154,585
Total	127,768,333	2,386,505	5,738,658	1,955,798

30. Capital adequacy (continued)

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

2007 Group and Bank	Principal Amount	Positive Fair Value of Derivative Contracts	Credit Equivalent Amount	Risk Weighted Assets
	RM'000	RM'000	RM'000	RM'000
Direct Credit Substitutes	217		217	217
Transaction related contingent Items	668,366		334,183	146,405
Short Term Self Liquidating trade related contingencies	55,022		11,004	4,927
Foreign exchange related contracts				
One year or less	15,972,437	202,241	388,970	154,621
Over one year to five years	2,496,245	35,152	282,267	167,720
Over five years	3,508,079	109,923	516,784	230,401
Interest/Profit rate related contracts				
One year or less	39,999,488	36,369	80,526	32,480
Over one year to five years	63,008,502	305,053	1,333,335	463,756
Over five years	9,008,899	217,299	874,460	435,330
Equity related contracts				
One year or less	549,209	-	-	-
Over one year to five years	1,051,773	-	-	-
Over five years	124,697	-	-	-
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	549		275	206
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	744,008		148,802	147,293
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	-		-	-
Unutilised credit card lines	-		-	-
Off-balance sheet items for securitisation exposures	-		-	-
Off-balance sheet exposures due to early amortisation provisions	-		-	-
Total	137,187,491	906,037	3,970,823	1,783,356

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. 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.

Credit risk

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

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.

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 Balance Sheet. The credit exposure arising from off Balance Sheet activities has been disclosed in Note 30 to the financial statements.

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.

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

31. Risk management (continued)

Liquidity risk

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

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.

Operational risk

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

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

32. Interest rate risk

The Group and the Bank are exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The following tables indicate the effective interest rates at the balance sheet date and the periods in which the financial instruments reprice or mature, whichever is earlier.

Group and Bank 2008	Non-trading book							Trading book RM'000	Total RM'000	Effective interest rate %		
	Up to 1 month RM'000	> 1 - 3 months RM'000	> 3 - 12 months RM'000	> 1 - 2 years RM'000	> 2 - 3 years RM'000	> 3 - 4 years RM'000	> 4 - 5 years RM'000				Over 5 years RM'000	Non-interest sensitive RM'000
Assets												
Cash and short term funds	155,000	-	-	-	-	-	-	-	150,889	-	305,889	3.24
Securities purchased under resale agreements	-	-	-	-	-	-	-	6,070,853	-	6,070,853	6,070,853	2.86
Securities held-for-trading	-	-	-	-	-	-	-	698,204	-	698,204	698,204	3.59
Securities available-for-sale	-	-	-	-	-	-	-	-	2,849	-	2,849	-
Securities held-to-maturity	-	-	-	-	-	-	-	-	1,591	-	1,591	-
Loans, advances and financing - performing	489,632	268,413	195,656	270	1,537	509	1,430	-	-	35,585	993,032	4.56
- non-performing*	-	-	-	-	-	-	-	-	(15,530)	-	(15,530)	-
Other non-interest sensitive balance	-	-	-	-	-	-	-	-	288,852	2,566,240	2,855,092	-
Total assets	644,632	268,413	195,656	270	1,537	509	1,430	9,335,297	428,651	35,585	10,911,980	

32. Interest rate risk (continued)

Group and Bank 2008	Non-trading book							Trading book RM'000	Total RM'000	Effective interest rate %		
	Up to 1 month RM'000	> 1 - 3 months RM'000	> 3 - 12 months RM'000	> 1 - 2 years RM'000	> 2 - 3 years RM'000	> 3 - 4 years RM'000	> 4 - 5 years RM'000				Over 5 years RM'000	Non-interest sensitive RM'000
Liabilities and shareholders' equity												
Deposits from customers	1,987,045	20,731	852,962	511,302	77,710	550,000	1,085,000	150,000	707,528	-	5,942,278	3.04
Deposits and placement with banks and other financial institutions	235,951	31,944	-	-	-	-	-	-	794,159	-	1,062,054	1.48
Other non-interest sensitive balance	-	-	-	-	-	-	-	-	742,087	2,088,080	2,830,167	-
Total liabilities Shareholders' equity	2,222,996	52,675	852,962	511,302	77,710	550,000	1,085,000	150,000	2,243,774	2,088,080	9,834,499	
Total liabilities and shareholders' equity	2,222,996	52,675	852,962	511,302	77,710	550,000	1,085,000	150,000	3,321,255	2,088,080	10,911,980	
On-balance sheet interest sensitivity gap	(1,578,364)	215,738	(657,306)	(511,032)	(76,173)	(549,491)	(1,083,570)	(114,415)	(2,892,604)	7,247,217	-	
Off-balance sheet interest sensitivity gap (interest rate swaps)	-	-	-	-	-	-	-	-	-	-	-	
Total interest sensitivity	(1,578,364)	215,738	(657,306)	(511,032)	(76,173)	(549,491)	(1,083,570)	(114,415)	(2,892,604)	7,247,217	-	

* This is arrived at after deducting the general allowance and specific allowance from the outstanding gross non-performing loans.

32. Interest rate risk (continued)

Group and Bank 2007	Non-trading book							Trading book RM'000	Total RM'000	Effective interest rate %	
	Up to 1 month RM'000	> 1 - 3 months RM'000	> 3 - 12 months RM'000	> 1 - 2 years RM'000	> 2 - 3 years RM'000	> 3 - 4 years RM'000	> 4 - 5 years RM'000				Over 5 years RM'000
Assets											
Cash and short term funds	2,200,753	-	-	-	-	-	-	-	93,740	2,294,493	4.63
Securities purchased under resale agreements	-	-	-	-	-	-	-	5,589,379	-	5,589,379	3.48
Securities held-for-trading	-	-	-	-	-	-	-	2,523,351	-	2,523,351	3.58
Securities available-for-sale	-	-	-	-	-	-	-	-	3,621	3,621	-
Securities held-to-maturity	-	-	-	-	-	-	-	-	1,591	1,591	-
Loans, advances and financing											
- performing	409,988	197,519	55,121	1,798	17,233	1,080	884	43,005	-	726,628	4.81
- non-performing*	-	-	-	-	-	-	-	-	(17,269)	(17,269)	-
Other non-interest sensitive balance	-	-	-	-	-	-	-	-	126,042	915,134	-
Total assets	2,610,741	197,519	55,121	1,798	17,233	1,080	884	43,005	207,725	9,027,864	12,162,970

32. Interest rate risk (continued)

Group and Bank 2007	Non-trading book						Trading book RM'000	Effective interest rate %		
	Up to 1 month RM'000	> 1 - 3 months RM'000	> 3 - 12 months RM'000	> 1 - 2 years RM'000	> 2 - 3 years RM'000	> 3 - 4 years RM'000			> 4 - 5 years RM'000	Over 5 years RM'000
Liabilities and shareholders' equity										
Deposits from customers	1,386,365	196,532	83,774	969,206	395,182	53,600	600,000	185,000	506,267	4,375,926
Deposits and placement with banks and other financial institutions	1,407,776	-	-	-	6,000	-	-	-	1,312,504	2,726,280
Obligations on securities sold under repurchase agreements	927,260	1,683,889	497,987	-	-	-	-	-	-	3,109,136
Other non-interest sensitive balance	-	-	-	-	-	-	-	-	443,657	1,025,642
Total liabilities Shareholders' equity	3,721,401	1,880,421	581,761	969,206	401,182	53,600	600,000	185,000	2,262,428	11,236,984
Total liabilities and shareholders' equity	3,721,401	1,880,421	581,761	969,206	401,182	53,600	600,000	185,000	3,188,414	12,162,970
On-balance sheet interest sensitivity gap	(1,110,660)	(1,682,902)	(526,640)	(967,408)	(383,949)	(52,520)	(599,116)	(141,995)	(2,980,689)	8,445,879
Off-balance sheet interest sensitivity gap (interest rate swaps)	-	-	-	-	-	-	-	-	-	-
Total interest sensitivity	(1,110,660)	(1,682,902)	(526,640)	(967,408)	(383,949)	(52,520)	(599,116)	(141,995)	(2,980,689)	8,445,879

*This is arrived at after deducting the general allowance and specific allowance from the outstanding gross non-performing loans.

33. Fair values of financial assets and liabilities

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

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

	2008		2007	
	Carrying Value RM'000	Fair Value RM'000	Carrying Value RM'000	Fair Value RM'000
Financial assets				
Securities held-for-trading	698,204	698,204	2,523,351	2,523,351
Securities available-for-sale	2,849	2,849	3,621	3,621
Securities held-to-maturity	1,591	1,591	1,591	1,591
Loans, advances and financing	977,502	977,502	709,359	709,016

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

- (a) *Securities held-for-trading, securities held-to-maturity and securities available-for-sale* - The fair values are estimated based on quoted or observable market prices as at the balance sheet date. Where such quoted or observable market price are not available, the fair values are estimated using pricing models or discounted cash flow techniques. Where discounted cash flow technique is used, the expected future cash flows are discounted using prevailing market rates for similar instruments as at balance sheet date.
- (b) *Loans, advances and financing* - The fair values of fixed rate loans with remaining maturity of less than one year and variable rate loans are estimated to approximate their carrying values. For fixed rate loans with maturities of more than one year, the fair values are estimated based on expected future cash flows of contractual installment payments and discounted at prevailing rates at balance sheet date offered for similar loans. In respect of non-performing loans, the fair values are deemed to approximate the carrying values, net of specific allowance for bad and doubtful debts and financing.

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

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

34. Equity compensation benefits

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

Share Plans

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

Deutsche Bank Share Scheme

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

DB Restricted Equity Unit Plan

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

DB Global Share Plan

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

34. Equity compensation benefits (continued)

DB Equity Plan

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

During the year, RM2,259,000 (2007 - RM3,842,000) of expense was recognised in the income statement.

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

Group and Bank

	2008	2007
	Number	Number
Outstanding at 1 January	18,985	29,483
Granted during the year	4,955	11,534
Vested to employees during the year	(10,191)	(19,398)
Net transferred during the year	2,766	(2,574)
Forfeited/Lapsed during the year	(1,319)	(60)
	<hr/>	<hr/>
Outstanding at 31 December	15,196	18,985
	<hr/> <hr/>	<hr/> <hr/>
	2008	2007
	€'000	€'000
Grant value of share awards outstanding at 31 December	1,147	1,531
	<hr/> <hr/>	<hr/> <hr/>
Grant value of share awards issued to the Scheme in the year	318	1,189
	<hr/> <hr/>	<hr/> <hr/>
Grant value of share awards vested to employees in the year	814	1,084
	<hr/> <hr/>	<hr/> <hr/>

34. Equity compensation benefits (continued)

Movements in the number of options held by employees are as follows:

	2008 Number	2007 Number
Outstanding at 1 January	550	364
Net transferred during the year	-	186
Forfeited/Lapsed during the year	(450)	-
Outstanding at 31 December	<u>100</u>	<u>550</u>

No options were granted since year 2003.

Exercise period	Strike price Euro	2008 Number	2007 Number
January 2007 - November 2008	55.39	-	450
January 2007 - November 2009	75.24	100	100